# THE Freeman

IDEAS ON LIBERTY

## APRIL 1966




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# IN THIS ISSUE



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# THE Freeman

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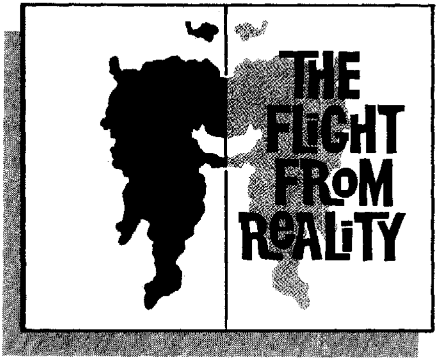


# 19. The Flight from Economics

CLARENCE B. CARSON

... In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity – the epidemic of over-production. ... Because there is too much civilization, too much means of subsistence, too much industry, too much commerce. KARL MARX and FREDERICK ENGELS, 1848

... *The essence of social progress lies not in the increase of material wealth but in a rise of the margin of consumption.* SIMON N. PATTEN, 1893

... In industry after industry potential output is vastly greater than demand – a condition which grows steadily worse. STUART CHASE, 1931

... Shall we continue to believe that panics, deflation, and bankruptcy are our only remedy for overproductivity in industry? Or shall we ... control overcapacity and reconstruct the purchasing power of our people?

REXFORD G. TUGWELL, 1935

Given a sufficiency of demand, the responding production of goods in the modern economy is almost completely reliable. We have seen ... why men once had reason to regard the economic system as a meager and perilous thing. And we have seen how these ideas have persisted after the problem of production was conquered. JOHN K. GALBRAITH, 1958

THE METHODS of reform have been drawn from a variety of incongruous sources – from war, from business, from charitable organizations, from voluntary societies, from feudal practices, from mercantile policies, among others. The consequences that

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have followed attempts to use these methods have been determined by the methods. But there is more to the matter of the methods of the reformers than their origin. There have been strange justifications for the use of the methods and peculiar, as well as particular, applications of them.

The particular orientation of most reformers has been materialistic. They have professed concern with the material well-being of people. Their interest and concern has had to do with hunger, deprivation, disease, malnutrition, poverty, poor housing, infestations, and exposure. Such matters fall in the realm of economy. Many of the programs and policies of reformers are aimed at or have to do with things economic. These emphases make economics the central discipline for reformist attention; their programs succeed or fail to the extent that they are more or less economically sound. It would not be too much to say that the vast meliorist reform effort would only be morally, socially, and rationally justified if it were in accord with sound economics.

### *Uneconomical Programs*

On the face of it, many reform programs appear to be uneconomical. Reformers have, at various times, advocated crop restrictions and control upon industrial production, subsidies for products already in "surplus," loans to foreign governments to enable them to buy American goods, give-away programs both domestic and foreign, deficit spending by government in order to produce prosperity, inflation in order to increase "purchasing power," easy money policies to promote spending, the raising of wages by promoting unionization and establishing minimum wages, the establishing of prices above or below market prices, special taxes upon corporations which had become major instruments of production, graduated income taxes which would fall proportionately heaviest upon those with the highest incomes, the governmental provision of income to those who do not produce, and so on. These are not measures of a character that would usually be called economical. Men have not customarily thought it economically sound to spend more than they make, to take from those who produce and give to those who do not, to pay more than the market price for goods and services, to give away their substance.

A deeper look at economics reveals that such actions are, indeed, uneconomical. Economics has to do with scarcity. This character of economics is indicated by the conventional uses of words related to it. For example, one dictionary defines "economical" as "avoiding waste or extravagance; thrifty." It "implies prudent planning in the disposition of resources so as to avoid unnecessary waste. . . ." To "economize" is to "use sparingly or frugally." "Economy" refers to "thrifty management; frugality in the expenditure or consumption of money, materials, etc." Economics can be defined as the study and exposition of the most effective means for men to maintain and increase the supply of goods and services at their disposal. These goods and services are understood to be scarce; and economics has to do with the frugal management of time, energy, resources, and materials so as to bring about the greatest increase in the supply of the goods and services most desired. An aspect of economics, one with which much of academic and theoretical economics has dealt, is the study and setting forth of answers to the question of what are the best social conditions within which economic behavior may take place. Such a study is known as political economy, but it, too, has been premised upon the existence of scarcity.

### *Aggravated Scarcity*

With these definitions in mind, it should be clear that the methods of reformers have not been economical. Crop restrictions are means of increasing scarcity rather than diminishing it. Minimum wages, above the market rate, increase the shortage of labor by pricing it out of use (cause unemployment). Price supports for goods make them unavailable to those who cannot afford them at that price, thus increasing *their* scarcity. Inflation increases the supply of money, not the supply of goods. The giving away of goods decreases their supply; and if these are *taken* from someone by government, this action decreases the incentive for the production of goods. Loans to enable the buying of goods are not economic, though if the loans be repaid with interest, at or above the market rate, it would be economical for the lender. None of these devices involves frugal management of limited means to deal with the problem of scarcity.

### *Mercantilism Perpetuated*

Modern (i.e., post-Medieval) economics took shape from proposals dealing with scarcity. Some of these developments in the sixteenth, seventeenth, and into the eighteenth centuries are known now as mercantilism. Mercantilism was, and is, nationalistic, that is, a proposed economy for dealing with the scarcity which confronts a particular nation. The particular scarcity which mercantilists emphasized was the scarcity of gold, but the value of gold was generally understood to be its virtually universal acceptability as a medium of exchange. At any rate, mercantilists focused attention upon means for increasing the supply of gold within a nation. They thought of one nation's wealth as being got at the expense of other nations and conceived of a variety of devices for getting gold from other nations. Their main invention was the favorable-balance-of-trade idea, by which a nation would sell more goods to a nation than it bought from that nation, the difference being made up by gold. Mercantilists favored manufacturing, for thereby the value of a product would be enhanced before it was sold, and they promoted colonization for the securing of raw materials and markets. Regulatory measures were endorsed as means for enhancing the trade and gold supply of a nation.

#### *Economically Sound Behavior Advantageous to Everyone*

Dealing with scarcity was the object of mercantilism, but were such practices economical? It was the great work of the physiocrats and Adam Smith in the latter part of the eighteenth century to show that they were not. These writers took a cosmopolitan or universal view of economics. They were concerned to discover and set forth the natural order for economic behavior. From this broad view, Smith, particularly, demonstrated that true economic behavior is *social,* that when everyone behaves economically, everyone benefits.

In a century beset by world wars—wars rooted mainly in trade conflicts spawned by mercantilism —Smith held that trade is by nature peaceful, that the wealth of a people is not obtained at the expense of other peoples, that when peoples of one country trade with those of another, both benefit. He maintained that when each man pursues his own interest, when exchange is free from arbitrarily imposed obstacles, when each man may buy at the lowest price anywhere in the world and sell to the highest bidder on the world market, when competition is allowed free play, all will benefit. Each man will be able to get the highest price possible for his goods and services and be able to obtain those he wants at the lowest possible price, that is, roughly, at the cost of providing them. There is an invisible hand – an order in the universe – that brings harmony out of the diverse actions of men, if they may act as they choose and are prohibited to use force, fraud, or deception in their dealings with others.

Smith held that government intervention was not necessary to bring about these beneficent results. On the contrary, government intervention is a positive deterrent to economic behavior; it places obstacles in the way of free exchange, promotes uneconomic (viewed socially) behavior, and distorts the market. In short, mercantilist practices are not economic.

### Adam Smith Displaced

Economic thought, after Smith, consisted largely of refinements, extensions, and modifications of positions which he and the physiocrats had set forth. But the philosophical framework within which Smith worked hardly survived the eighteenth century for most thinkers, as we have seen in earlier chapters. The breadth of vision made possible by the cosmopolitanism, universalism, and belief in a natural order within a rational universe gave way to the particularism of romanticism and the numerous abstractions which served as a base for the proliferating ideologies of the nineteenth century. Economics became the "dismal science," the discipline which justified the ways of scarcity and privation to men.

Economists were soon, once again, wrestling with the conundrum which ever and again besets them. The conundrum has had many formulations, but the one which follows may, perhaps, state the essence of them all. If man is confronted with scarcity, if the supply of goods and services is less than the desire for them, it looks as if one man's gain is another man's loss. That is, when one man takes from the limited supply of goods, he has them at the expense of others who might have used them. If this were the case, the quest for goods and services would be a clash or contest between those who had them and those who wanted them for possession, with one side the winner and one the loser. Mercantilists had conceived of such a struggle among nations. Ricardo and Malthus conceived of the matter as a contest between increasing population and the limited means for subsistence. Marx rendered it into a class struggle. The social Darwinists, Spencer and Sumner, saw it as a struggle in which the fit survived.

### Developing Economic Theory

Economists adopted a variety of postures about the struggle and the scarcity. Ricardo held that that was the way things were and there was nothing much to be done about it (though technological innovations might temporarily ameliorate conditions for workers). Utilitarians held that free exchange and competition were all to the good; though some might get hurt, the greatest good for the greatest number would be achieved. Marx opted for revolution. The Austrians – Menger and Böhm-Bawerk – concluded that everyone benefited from free exchange because wants and values are subjective. The social Darwinists held that it all added up to progress. Utopians, who did not accept scarcity, were searching out the sources of privation in supposed exploitation and envisioning their perfect societies.

The main lines of economic thought in the nineteenth century run from the classicists – Smith and Ricardo – to the utilitarians – Bentham and Mill – to the Austrians. These schools shared the view, more or less, that true economic behavior is that of free men, willingly exchanging goods, making their own calculations, and seeking their own ends. Government intervention was not economic to them; it produced distortions which were antithetical to economic action. Even Karl Marx did not hold much brief for palliative action by governments.

### *Concerned with Scarcity*

Two points need particular emphasis. Historically, economic thought has been concerned with scarcity, however much the import of this may have been distorted by some thinkers. Nor was this simply an historical accident. The reason for being of economy is scarcity. If there were no scarcity, there would be no justification for economics. There would be no occasion for saving, for careful management, for priorities as to the order of satisfying desires, for choices among goods, or for efficiency. Second, economic thought has been, in the main, noninterventionist. Individual economists have favored this or that interventionist measure—the protective tariff, compulsory workmen's compensation insurance, government inspections – but not on economic grounds (the tariff being a possible exception). If it were economical, for instance, for an employer to take out insurance on his employees, he could be persuaded of this, and compulsion would be irrelevant.

There is no body of thought which demonstrates that it is economical for governments to intervene in the lives of people. There have been numerous claims, of course, that governments could manage businesses more effectively than would private interests, that governments will conserve scarce resources, that government action will render this or that economic benefit. A careful examination will show, I believe, that these are not economic arguments, that they are based not upon the premise of a scarcity of goods and services but an abundance. They are based, in short, upon the premise that economic behavior is unnecessary.

### *The "Plague of Abundance"*

At any rate, interventionist thought has been based upon the view that there exists an abundance of goods and services. The idea that mankind is confronted with a glut of goods and services is not particularly recent. It goes back at least to *The Communist Manifesto* (1848), and possibly before that time. But it has had its particular American articulation. This was provided mainly by that school of "economics" known as the institutionalists. Prominent leaders of this school have been Thorstein Veblen, John R. Commons, Stuart Chase, and, lately, John K. Galbraith.

Their basic position is that conditions have changed, that it was once true, indeed had been from time immemorial, that societies were confronted with scarcity, but that this condition is no longer the case for some societies, notably the United States. Stuart Chase held that the United States reached a condition of abundance in 1902. "Abundance," he said, "is self-defined, and means an economic condition where an abundance of material goods can be produced for the entire population of a given community."[1] Rexford G. Tugwell, the irrepressible New Dealer, described the change to plenty in this way: "Our economic course has carried us from the era of economic *development* to an era which confronts us with the necessity for economic *maintenance.* In this period of maintenance, there is no scarcity of production. There is, in fact, a present capacity for more production than is consumable, at least under a system which shortens purchasing power while it is lengthening capacity to produce."[2]

John K. Galbraith, who plays Stuart Chase to post World War II America, describes the development as historical in the following: "Nearly all [people] throughout all history have been very poor. The exception, almost insignificant in the whole span of human existence, has been the last few generations in the small corner of the world populated by Europeans. Here, and especially in the United States, there has been

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1 Quoted in Charles S. Wyand, *The Economics of Consumption* (New York: Macmillan, 1937), p. 54.

2 Rexford G. Tugwell, *The Battle for Democracy* (New York: Columbia University Press, 1935), p. 7.

great and quite unprecedented affluence."[3] Vance Packard, who is to Galbraith as Galbraith is to Veblen and Keynes – that is, derivative – states the development with his usual dramatic flair:

Man throughout recorded history has struggled – often against appalling odds – to cope with material scarcity. Today, there has been a massive breakthrough. The great challenge in the United States – and soon in Western Europe – is to cope with a threatened overabundance of the staples and amenities and frills of life.[4]

### *The Overproduction Theory*

The evidence which purports to support these claims of abundance has run the gamut from Veblen's conspicuous consumption of the leisure class to Packard's charges that industrial waste makers prey upon the gullible public with their shoddy merchandise with its built-in planned obsolescence. The terms which have received the widest acceptance for describing abundance are overproduction, unemployment, surpluses, unused industrial capacity, and underconsumption.

The following is some of the evidence Stuart Chase submitted in 1931:

American oil wells are capable of producing 5,950,000 barrels a day, against a market demand of 4,000,000 barrels, according to the figures of the Standard Oil Company of New Jersey.[5]

The real problem [in coal] is excess capacity. The mines of the country can produce at least 750,000,000 tons a year, while the market can absorb but 500,000,000 tons.[6]

American shoe factories are equipped to turn out almost 900,000,000 pairs of shoes a year. At present we buy about 300,000,000 pairs – two and one-half pairs per capita. There is admittedly a considerable shortage of shoes [?], but could we wear out, or even amuse ourselves with, five pairs per capita? I doubt it. For myself two pairs a year satisfy both utility and style. Yet if we doubled shoe consumption – gorging the great American foot, as it were – one-third of the present shoe factory equipment would still lie idle.[7]

Jumping now across the economic front to agriculture, we find that the basic problem of the American farmer lies in his "surplus." The government at the present writing has bought and holds in storage millions of bushels of wheat in a heroic and possibly calamitous attempt to keep the surplus from crushing wheat farmers altogether.[8]

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[3] John K. Galbraith, *The Affluent Society* (Boston: Houghton Mifflin, 1958), p. 1.

[4] Vance Packard, *The Waste Makers* (New York: David McKay, 1960), p. 7.

[5] Stuart Chase, *The Nemesis of American Business* (New York: Macmillan, 1931), p. 88.

[6] *Ibid.*, p. 89.

[7] *Ibid.*, p. 79.

[8] *Ibid.*, p. 76.

One might suppose that these writers would rejoice at the abundance of goods, be glad that an age-old problem has been solved, be jubilant at the prospects of plenty. They might even have been grateful for an economic system that provided them with such an abundance. How good it is, they might have said, to live in America where this has taken place. Of course, they were in the mood to say no such things. Instead, they held that abundance had produced great and difficult problems, problems of a monumental scale that threatened to grow. Poverty has continued to exist alongside abundance, overproduction resulted in waste and profligacy, mechanical production eventuated in technological unemployment, and producers reduced to all sorts of stratagems to dispose of their mounting goods and services.

### Intervention Rationalized

One writer attempted to account for many of the untoward developments of this century as a consequence of the efforts of producers to maintain artificial scarcity. The following are methods that he claims have been used to maintain scarcity:

1. *The Destruction of Surpluses by Warfare.* For the *temporary* creation of scarcity, no more effective means has yet been devised than modern warfare. Within a relatively short time it can dissipate industrial surpluses and create an additional demand for goods that taxes productive equipment to capacity. . . .

2. *The Extension of Loans.* With the disappearance of wartime demands, other markets are sought in an effort to avoid an immediate and complete collapse of the industrial structure. . . . The result [after World War I] was a series of . . . loans that by 1929 totaled about $11,023,000,000. . . .

3. *Public Subsidy of the Consumer.* When the process of lending purchasing power to the consumer failed, the Federal government commenced what is now an established practice of *giving* to the indigent funds with which to buy. . . .

4. *The Destruction of Goods and the Curtailment of Output.* Having failed through wars, loans, "gifts," and a variety of other means to make purchasing power keep pace with large-scale production, attempts are now being made to preserve conditions of scarcity by deliberately controlling output so that it does not exceed profitable demand.[9]

Many different specters have been raised over the years which have been supposed to have arisen from this overproduction, but none has been more persistent than that of rising unemployment. Stuart Chase declared, in the early 1930's,

[9] Wyand, *op. cit.*, pp. 44-48.

that the "current depression will pass." However,

> What threatens to continue unabated, in good times and bad, is technological unemployment with its three faces – the machine, the merger, the stop watch. In four years oil refineries increased output 84 per cent, and laid off 5 per cent of their men while doing it. Tobacco manufacturing output climbed 53 per cent in the same period, with 13 per cent fewer men at the end. This is the trend throughout industry.
>
> It can mean only one thing. An equivalent tonnage of goods can be produced by a declining number of workers, and men must lose their jobs by the thousands – presently by the millions.[10]

This would, according to his analysis, lead to a further increase of surpluses, for there would be less and less income to buy the goods produced.

### *The System Accused*

All those who have written in this vein about abundance have pointed finally to one thing: something wrong in the system itself. Their reasoning is not difficult to follow. Productive power has been developed which can and does produce a glut of goods. All sorts of devices have been got up to dispose of these surpluses. On the other hand, many are in need because it does not require many workers to produce this great bounty. One recent writer has proclaimed that we have been worshiping a false god. He said,

> Some people even seem to think that mass production can cure all the world's economic and social ills. You might almost say that it has become a world mania. Mass production has become our god, our cure-all, our economic savior.[11]

Writer after writer has proclaimed that the flaw lies in distribution. Stuart Chase put it this way:

> In respect to the whole body of finished goods, it is not so much *overproduction as underconsumption* which is the appalling fact. As a nation we can make more than we can buy back. Save in certain categories, there is a vast and tragic shortage of the goods necessary to maintain a comfortable standard of living. Millions of tons of additional material could be marketed if purchasing power were available. Alas, purchasing power is not available.[12]

Charles Wyand declared,

> More goods are being produced than can be profitably sold. On the other hand, it can be clearly shown that most people are consuming at but a fraction of their potential capacity. ... As will be shown later, the con-

[10] Chase, *op. cit.*, pp. 15-16.

[11] Walter Hoving, *The Distribution Revolution* (New York: Ives Washburn, 1960), p. 4.

[12] Chase, *op. cit.*, p. 78.

sumer's buying power cannot absorb all that the nation can produce because (1) incomes are insufficient, (2) too much of the nation's income is saved, and (3) prices are too high.[13]

Horace Kallen said,

Indeed, at no time in the history of industrial society has the production of the necessities of life been sufficient to meet all needs. It was not need which limited demand. It was price. Prices had so outdistanced wages that wages could not catch up with them.[14]

### *Palliatives Proposed*

Those who have written in this vein have not always been quite consistent. On the one hand, they have often indicated that there is an absolute surplus—actually more goods produced than can or will be consumed. On the other hand, and in certain moods, they hold that the problem is only one of maldistribution. Then, too, some writers have focused upon the wastefulness of private enterprise and have advocated the conservation of scarce resources. In recent years, many of those who have dealt with such matters have professed great concern for "economic growth." It would, therefore, be a misconstruction of what has been going on to deal with all of it in connection with scarcity.

What all these positions share —whether it be a concern with overproduction, underconsumption, maldistribution, wastefulness, or economic growth—is the view that government must intervene in one way or another to correct the situation. They hold that the "system" produces these unwanted consequences and that collective action must be taken to set it straight.

Simon Patten, an early advocate of the notion that a surplus exists and a teacher of Rexford G. Tugwell, advocated the absorption of the surplus by taxation. He declared that taxation should "be placed not on particular forms of prosperity, but on general prosperity. The State should not try to hunt up the individual who profits by each of the improvements it makes, but should make taxation a reduction of the general surplus of society." His justification of this was that "we can conceive of the State as a factor in production, and hence entitled to a share of the undistributed produce of industry. It has helped to promote general prosperity, and can demand a part of the surplus of society along with landlords, employers, capitalists and laborers."[15]

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13 Wyand, *op. cit.*, p. 40.

14 Horace M. Kallen, *The Decline and Rise of the Consumer* (New York: D. Appleton-Century, 1936), p. 404.

15 Simon N. Patten, *Essays in Economic Theory*, Rexford G. Tugwell, ed. (New York: Alfred A. Knopf, 1924), p. 98.

John R. Commons, an early and late reformer, called in 1893 for a guaranteed right to employment in order to take care of the "surplus" of laborers:

The right to employment when enforced would have the effect of guaranteeing to every worker, even the lowest, a share of the total income in excess of his minimum of subsistence. It would give steady work through the year, which would increase the wages of the lowest labourers by 30% to 50%. And by overcoming the chronic excess of labourers beyond the opportunities for employment, it would raise the marginal utility of the marginal labourers, thus raising the wages of all.[16]

So it has gone through the years: the apostles of surplus, overproduction, technological unemployment (surplus workers), underconsumption, and maldistribution have been proposing some variety of reform or intervention. Stuart Chase proclaimed that the situation called for detailed planning:

In my judgment the only final way out lies through planned production. We have to scrap a large fraction of *laissez-faire*, and deliberately orient productive capacity to consumption goods. . . .

For America, industrial co-ordination must probably take the form of a drastic revision of the anti-trust laws; an alliance between industry, trade association, and government to control investment (i. e., plant capacity) on the one hand, and to guard against unwarranted monopoly prices on the other; a universal system of minimum wages and guaranteed hours of labor to frighten off fly-by-night entrepreneurs and to stimulate purchasing power; and finally . . . , the setting up of a National Planning Board as a fact gatherer and in turn an advisor . . . on every major economic undertaking in accordance with a master blueprint.[17]

Rexford G. Tugwell said,

Let me summarize: In this era of our economic existence, I believe it is manifest that a public interest . . . commands the protection, the maintenance, the conservation, of our industrial faculties against the destructive forces of the unrestrained competition. . . . For today and for tomorrow our problem is that of our national economic maintenance for the public welfare by governmental intervention. . . .[18]

Charles Wyand held that –

The gross effect of these trends is to offer American business the choice of some sort of private control of business practice or of growing governmental interference to prevent the complete collapse of the capitalistic economy.[19]

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16 John R. Commons, *The Distribution of Wealth* (New York: Reprints of Economic Classics, 1963), pp. 84-85.

17 Chase, *op. cit.*, pp. 95-97.

18 Tugwell, *op. cit.*, p. 9.

19 Wyand, *op. cit.*, p. 73.

### *New Means to Old Ends*

The emphasis has shifted somewhat over the years but not the goal of government control and direction. The problem, according to John K. Galbraith, is one of private affluence and public penury. There needs to be a great deal more spending in the governmental realm. Following his lead, Vance Packard emphasized the desirability of spending for education, government provided recreation facilities, support of research for the desalinization of water, and so forth.

The claims of abundance, surplus, and underconsumption are but a prelude, then, to the calls for positive government action. The arguments move, gradually and subtly or swiftly, from economics to the political arena. Their import can now be spelled out. If the problem were one of production, which it would be if there remained the fundamental difficulty posed by scarcity, it would be a matter for economics. To deal with scarcity, there needs to be frugal management, saving, investment, balanced budgets, calculations as to the best means to use to get the greatest return from materials, and determinations as to how to produce the most goods with the least expenditure of energy. But if the situation were reversed, if abundance had replaced scarcity, economic behavior would no longer be in order. It might be helpful to spend more than was taken in, to employ more workers than the task at hand required, to use more materials than would be called for by the undertaking. To be economical, at any rate, would be anachronistic.

Most important, economic analysis has long shown conclusively that individuals and private companies have the incentives when they may exchange freely to deal as effectively as can be done with general scarcity. But the case might be quite different if abundance were the problem. This is the character of the arguments which have been recapitulated above. When the problem becomes one of distribution, it then becomes feasible to argue that governments can intervene for ameliorative purposes. In short, it might be admitted that force would be a poor way to achieve production, but the same would not necessarily go for distribution. Governments can redistribute; they can take goods from some and give them to others; they can spend, expropriate, set aside lands and resources, confiscate, and even waste rather effectively. These are tasks which governments alone, because of their monopoly of the use of force, would be suited to perform, if anybody had to perform such tasks.

The United States government has indeed been engaging in such practices for a good many years, assisted on occasion by local and state governments. The methods for doing these things are many and varied. They run the gamut from low interest rates for those in favored categories to the confiscatory taxation of the wealthy, from the subsidizing of some kinds of production to the limitation of other kinds, from minimum wages to maximum prices, from public welfare to social security, from financing low-rent housing to taxing high-rise apartments, and from the extension of power to organized labor to the intimate regulation of business activity. These are not economic actions; they are, instead, political. They have to do with power and its use. They have to do with artificially creating shortages, with driving prices above or below the market price, with the allocation of manpower according to political considerations, with arbitrary conservation and profligate spending. Even "surpluses" can be created – that is, goods priced higher than anyone can or will pay for them – by the use of force.

This shift from economics to politics is mirrored in the activities of many of those who now bear the name of economist. A popular news magazine noted this change recently. It said, "In the palaces and Parliaments of a hundred countries, economists are increasingly called upon to build, revive, or draw together national economies. Their home is no longer the ivory tower, and their profession is no longer the 'gloomy science' but a romantic and rewarding wielding of power." Moreover, "the Presidents and Ministers are receptive to the advice.... Several economists have risen to head governments, including West Germany's Ludwig Erhard, Portugal's Antonio Salazar, and Bolivia's Victor Paz Estenssoro. Others, such as Britain's Harold Wilson, are hopefully planning their own takeover [since achieved in his case]."[20] In America, many economists have become well-known names in government circles over the years: Rexford G. Tugwell, Walter Heller, John K. Galbraith, among others. Below this exalted rank, hundreds more toil away in the numerous government departments which lay seige to economy in the land.

### *Economics as a Tool for Reform*

There has, then, been a flight from economics, a flight from economics as a discipline for study and exposition to "economics" as

[20] *Time* (June 26, 1964), p. 86.

a tool for social reform, a flight from economics to politics. This has been, also, a flight from reality, though the full demonstration of this will follow later on in this work. It may be of some use, however, to observe here that scarcity is still with us, and may be expected to remain. Scarcity arises from the nature of the universe and the nature of man. Man wants a great variety of commodities and attentions. The want of them makes them economic goods and services. In order for these goods and services to be provided, someone has to labor, to use resources, to defer the gratification of wants. Labor and materials are in limited supply (always); deferment requires discipline; wants are unlimited by these or any other physical considerations. Hence, scarcity is an enduring fact of life.

Production is not something that is solved, once and for all. Goods must continue to be produced, else the supply that exists will be exhausted. Continued production requires the making of economic decisions – of decisions as to which materials in short supply and how many men in the limited labor pool and how much capital from the small store of it to employ to make what goods that will be in greatest demand.

Distribution is not something separable from production, not, that is, if production is to be maintained. Distribution – that is, exchange – is the great spur to production; it is the close relation between efforts and rewards that induces individuals to apply their energies economically to production. Surpluses do not indicate abundance; they rather indicate misallocation of materials, poor judgment, false signals in the economy, price rigidities, and/or the use of force to bring these about.

Scarcity remains. There is no better testimony to this fact than the desperate efforts of socialists to increase productivity, to achieve, as they say, "economic growth." But even these efforts are misunderstood by contemporary "distributionist economists." One writer notes that the Soviet Union has been using all sorts of devices to spur production. "But, nowhere in his talks did Khrushchev say anything about distribution. As a matter of fact he didn't seem to be aware of this side of the economic picture at all. He seemed to think production is the alpha and omega of the economic system."[21]

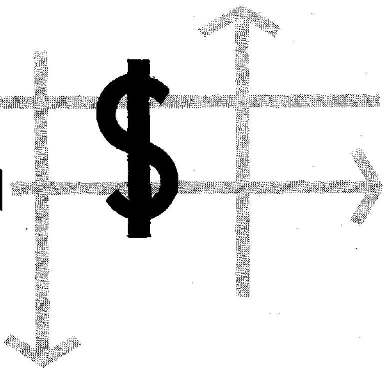
The view that America is now saddled with problems of abundance has been used to justify in-

[21] Hoving, *op. cit.*, p. 4.

tervention, but the roots of economic misunderstanding are even deeper than this. There is a whole body of pseudo-economic literature devoted to attempts to demonstrate that economic behavior results in contradictions that can only be resolved by government intervention. These arguments deserve some examination. ◈

*The next article in this series will concern "Meliorist Economics."*

# ON THE REDISTRIBUTION OF INCOMES



SUDHA R. SHENOY

THE IDEA of redistributing incomes and wealth has become a virtual dogma which few dare to question. It is one of the oldest parts of the socialist ideology; even those social democrats who oppose communism because it stands for "violent revolution," nevertheless argue that a "fairer" distribution of income is one of the best safeguards against such revolution. And many who otherwise oppose interventionism argue that redistribution is necessary to "correct" or "ameliorate" the "unfair" distribution of wealth and income, which they believe is one of the major flaws in the working of the free market. Thus, we hear protests that: "A mere 6 per cent of the people own 42 per cent

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of the nation's wealth"; or, "The distribution of income in our society should not be allowed to become so unequal that the great wealth at one end of the scale endangers the low incomes at the other."

What is most remarkable, however, is that this idea of redistribution should have "caught on" in just those areas—Western Europe, North America, and Australasia – that are distinguished from the rest of the world precisely by their astonishing *mass* prosperity. What especially strikes the visitor from the underdeveloped world (and I would include here the areas behind the Iron and Bamboo Curtains) is that the wide range of products and services, which at home are enjoyed only by the miscroscopic minority, are here bought by the masses. The difference between the developed and the underdeveloped parts of the world lies not in the amenities enjoyed by the wealthy – who in certain respects, such as personal services, are better off in the underdeveloped areas – but in the condition of the mass of the people in the respective areas. In the one, a wealth of goods and services (with a corresponding variety of jobs) is available to virtually everyone; in the other, the lives of the masses are marked by a poverty, the very memory of which has vanished in the West if we may judge from the comments in economic history textbooks.

### The Process Misunderstood

Perhaps the basic reason for the plausibility of redistributionist ideas is a misapprehension of the nature of ownership and production and what earning an income means in the context of a free market. The redistributionist seems to think that goods are "socially produced" and then thrown onto a common heap, from which incomes are "individually appropriated" – quite arbitrarily. But there *is a pattern* to the earning of incomes in a free market: the size of the income earned depends on the extent to which the individual – in cooperation with other individuals – succeeds in satisfying the wants of his fellow men. Even capitalists must use "their" capital to produce for their fellow men. Legal title to any collection of capital goods does not guarantee that income will flow in automatically.[1] For example, legal title to a hula-hoop factory in the United States today does not mean automatic profits to the owners – more likely, it means heavy losses

[1] One of the basic fallacies of Marx was the notion that capital would "automatically beget profits." But the theory of a capitalist conspiracy to keep wages low and prices high does not explain why capitalists sometimes have losses.

and strenuous efforts to salvage something from the wreckage. In other words, in a free market, even capitalists' incomes are "earned": by producing what their fellow men wish to buy.[2] Since, in this context, the fulfillment of consumer needs is the rationale of the production of capital goods, it is the mass of consumers who, in a free market, must be regarded as the real *economic* directors, if not the legal owners, of capital.[3]

In short, though *legal* title to all the thousands of factories and millions of machines may lie with a numerical minority, this vast accumulation of capital is not used to produce exclusively those items consumed by the few. The supermarkets are not stocked with caviar and champagne for "the 6 per cent who own 42 per cent of the nation's wealth": the supermarkets bulge with items for *mass* consumption. The vast amounts of capital equipment in the developed nations are used principally to produce an enormous variety of goods and services – including leisure – for the vast majority of the people. The production of luxury goods is a mere trickle compared with this outpouring of goods for mass consumption.

Contrast this with conditions in such countries as China or Soviet Russia – where vast amounts of resources are drawn into the construction of industrial or hydroelectric complexes that are useful only in the light of their rulers' military ambitions or for such technologically spectacular but otherwise useless feats performed by Sputniks and Cosmonauts. How much easier life could have been for Ivan Ivanovitch and his wife and family if these resources had been allocated according to the principle of consumer sovereignty!

### *Production and Trade*

What does redistribution mean in practice? The goods and services we consume – and which constitute our real income – have all been produced for us by our fellow men, in exchange for what we have produced for them. If any of us wishes to consume more – i.e., have a higher income – he must either produce more of the things his fellow men want – or some of his fellow men must voluntarily turn over to him what they have produced, without asking anything in return. In other words, if we wish to consume more without producing more, someone else must produce for us without him-

[2] Aristocrats and manufacturers, for instance, certainly were not the chief buyers of the coarse—and cheap—cottons produced by the first factories at the beginning of the Industrial Revolution.

[3] Ludwig von Mises, *Socialism* (London: Cape; and New Haven: Yale University Press, 1951) pp. 37-42.

self consuming. The principle is not changed if some third person, on our behalf, pays those who produce for us.

There is, of course, a third method of having more; and that is by seizing what others have produced, and thus forcing them to do without. And this is what is really involved in the redistribution of incomes via the state apparatus – progressive taxation to "soak the rich," and various "welfare" measures ostensibly aimed at raising the real income of the very poorest. Aside from the question of whether these aims are in fact achieved (which they are not[4]) it must be seen that compulsory redistribution of this type is just another form of capital consumption.[5] How is this? We must ask what the "rich" would have done with the income if it had been left in their hands. The answer is, they would have saved it—i.e., demanded capital goods. But if this income were handed over to those whose incomes are very much lower, they would not save it; they would use it to purchase consumption goods. The effect then of such redistribution would be that consumption goods are produced where capital goods would have been produced – i.e., there is capital consumption.[6]

Redistribution cannot, therefore, continue indefinitely. Once the capital has been consumed, the "high" incomes derived from its use will no longer be available to be redistributed. Nor can we assume that those who do earn higher incomes will passively acquiesce in having ever greater proportions of their income taxed away. After a time, progressive taxation defeats its own ends. The individual simply ceases to earn the income in taxable form – or as in some countries, is forced to start keeping two sets of books. Observe, too, the inconsistency here: on the one hand, it is the

[4] Progressive taxation actually serves to maintain the existing distribution of wealth and income: true, the already-wealthy are prevented from getting wealthier, but those seeking to rise are prevented from rising at all. See Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), pp. 803 ff., and David McCord Wright, *Democracy and Progress* (New York: Macmillan, 1948), pp. 94-103. For the British experience with "equalitarian" welfare services, see the various Hobart Papers issued by the Institute of Economic Affairs, London.

[5] See F. A. Hayek, *The Pure Theory of Capital* (London: Routledge and Kegan Paul, 1941), ch. xxv.

[6] If resources are scarce, we cannot have more of both; if, with the Keynesians, we wish to argue that there are always unemployed resources, then we are implicitly assuming either (a) that these resources are perfectly versatile, or (b) exactly the right *sort* of resources are available in exactly the right *proportions.*

people themselves who, in a free market, create these "high" incomes by buying what the "capitalists" help to produce — and then, the people propose to "correct" the "unequal" distribution of the market via the political process![7]

### *Redistribution in Backward Countries*

What about redistribution in other contexts — say, in an underdeveloped country, or under feudalism? Now, the characteristic mark of such precapitalistic or noncapitalistic situations is the extreme poverty of the masses, against which the comparative wealth of the few landlords and nobles appears even more harsh. In these situations, the problem is to *produce* sufficient goods; i.e., to build up the capital resources required to produce the consumption goods for the masses. The question of political redistribution hardly arises.

This is not, of course, to disparage the ideal of voluntary giving. It would not be necessary to add this, were it not for the persistent misunderstanding of the implications of free market principles with respect to charity. Economics certainly does not assume that all men are selfish monsters — though a great many people, who should know better, go on talking in this fashion. Economics is concerned only with the principles governing the allocation of scarce resources among competing ends; it says nothing about the ends themselves. And, for most people, these ends will include, as a matter of course, the assisting of those who are in need. The pity is that in so many countries, especially underdeveloped ones, heavy taxation — including direct taxes, indirect taxes, and the hidden tax of inflation — is making it more and more difficult to continue all those traditional forms of giving that formerly were regarded as the privilege and the duty of the many who felt they could afford it. ◈

[7] I am not saying that the developed areas today are, or at any time were, paradigms of the free market. In fact, only *some* free market principles were ever applied in the past; and the last 100 years have seen an accelerating movement away from even this. What I am saying is that we should try to clarify the ideas in terms of which we attempt to interpret the real world. If we wish to have a system based on governmental direction rather than one based on the principle of consumer sovereignty, we should be clear about this.

# The Armchair Skirmish against Poverty

Timothy J. Wheeler

The English poor laws, minimum income allowances, work houses, orphanages, asylums, alms houses, (Bentham's) Houses of Industry, (John Cary's) Corporation of the Poor, free contract, extension of education and suffrage, work relief for the able-bodied, regulation of health and education, abolition of slavery, bankruptcy and usury laws, industrial safety codes, pure food and drug regulation, railroad and utility legislation, antitrust laws, housing and zoning ordinances, antidiscrimination laws, minimum wage laws, collective bargaining, child labor laws, work-hour regulations, minimum price controls, price supports, social insurance, progressive taxation, tariff and immigration policy, job training, public works, rehabilitation programs, vocational training, family services, hospitals, schools, libraries, clinics, information services, public housing, nurseries, recreational facilities, sanitary services, denial of suffrage and right to marry to the poor, special treatment for veterans, the blind, the insane, widows, children, the aged, the disabled, and the unemployed, tax cuts and rebates, public employment agencies, welfare agencies, and unemployment compensation.

THOSE WHO SPEAK glibly of "allocating purchasing power" – by which they mean the forcible redistribution of wealth, patently a political function – are prepared to employ means that are both impractical and immoral, and alas, these persons are in full charge of the poverty debate today. If the sentimentalists casually prescribe, and get, massive crop supports to aid poor farmers, it is because there are all too few cool heads around to point out that such aid is at the expense of the urban poor, in the form of higher food and clothing prices, loss of jobs, and an inflationary attack on the value of savings and fixed pensions, not to mention the bad psychological effects on both the farmers and the urban poor involved in the unjust transfer of wealth.

It is about time, then, that the poverty problem be analyzed, in rigorous simplicity, as part of the basic problem of the market economy: overcoming scarcity.

The evidence is that economic progress is rapidly overcoming material impoverishment, and that

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This article is slightly condensed and reprinted by permission from the Winter 1965 issue of *Rampart Journal.*

in the process much of the misery and demoralization that attends economic deprivation is evaporating. (This is not to suggest that misery and demoralization and crime are not increasing on the whole: they are, but in my opinion for spiritual reasons.) Therefore, as a tentative hypothesis it would seem that a properly directed increase in production should form the core of any accelerated attack on poverty, and that, conversely, the kiss of politics should be emphatically avoided.

### *Panaceas Past and Present*

Just about every panacea devisable by man has already been wheeled out against poverty. Few, if any, of these, however, have ever jarred the correlation between the expanding supply of goods and services, broadly distributed by a contractual economy, and the steady improvement in the lot of the poor.

Professor Robert Lampman of the University of Wisconsin has taken note of past legislative attempts to help the poor.[1] These include:

The English poor laws, minimum income allowances, work houses, orphanages, asylums, alms houses, (Bentham's) Houses of Industry, (John Cary's) Corporation of the Poor, free contract, extension of education and suffrage, work relief for the able-bodied, regulation of health and education, abolition of slavery, bankruptcy and usury laws, industrial safety codes, pure food and drug regulations, railroad and utility legislation, antitrust laws, housing and zoning ordinances, antidiscrimination laws, minimum wage laws, collective bargaining laws, child labor laws, work-hour regulations, minimum price controls, price supports, social insurance, progressive taxation, tariff and immigration policy, job retraining, public works programs, rehabilitation programs, vocational training, family services, hospitals, schools, libraries, clinics, information services, public housing, nurseries, recreational facilities, sanitary services, denial of suffrage and right to marry to the poor, special treatment for veterans, the blind, the insane, widows, children, the aged, the disabled, and the unemployed, tax cuts and rebates, public employment agencies, welfare agencies, and unemployment compensation.

Whatever miseries are suffered by the poor, they do not suffer from political neglect.

In brief consideration of Professor Lampman's awesome list, it

[1] Robert J. Lampman, "The Anti-Poverty Program in Historical Perspective" (a paper presented to the UCLA Faculty Seminar on Poverty, February 25, 1965).

is readily seen that antipoverty legislation has been sometimes ineffective and often harmful. We might very well wonder if we haven't been killing the poor with kindness. Pending further analysis, it might tentatively be supposed that such programs as have been effective in helping the poor with no strings attached are precisely those which removed legislative interventions into the production process, such as the abolition of slavery and the extension of free contract.

### *Progress in Profile*

In 1798, Jeremy Bentham wrote: "The multitude included under the denomination of the poor compose the bulk of the community – nineteen-twentieths might perhaps be found to belong to that class."

A century ago, more than half of the U.S. populace was poor by contemporary definitions. Jacob Riis estimated in 1892 that 20 to 30 per cent of New York City lived in penury.

Studies made in 1939 and 1949 established poverty lines of $1,950 and $2,500 respectively. The 1965 poverty line, suggested by the President's Council of Economic Advisers, is $3,000 income per family, or $1,500 per unattached individual per year.

Since the 1949 survey, by CEA figures, the number of those living in poverty has dropped from 32 per cent to 20 per cent, while at the same time the standard of poverty rose by $500, or 20 per cent.

Both of these trends – towards fewer poor, and a rising standard of poverty – have been in effect since Bentham's time. So dramatic has been the improvement in the status of the poor that a truly revolutionary belief in the final abolition of poverty has obtained in the U.S. and Britain since about the turn of the century. "In contrast to the people of less fortunate lands, who have regarded poverty as inevitable, Americans have tended to regard it as an abnormal condition," writes economic historian Robert Bremner.[2]

### *Towards a Sharper Definition*

The concept of poverty, like art, does not readily lend itself to objective definition. This has proved to be the biggest stumbling block for serious analysts.

Dorothy Brady of the University of Pennsylvania put it succinctly: "When faced directly with the problem of determining [poverty] for a given time and place, the theorist will deny the possibility of a unique answer and the propagandist will settle for one of

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[2] Robert H. Bremner, *From the Depths: The Discovery of Poverty in the United States* (New York University Press, 1956).

many solutions if the result suits his purpose."

This is not to suggest that poverty is indefinable, but rather that any definition is necessarily arbitrary. There are quite as many definitions as there are poverty fighters. But for economists, perplexed in many cases by an inability to distinguish the poor from the nonpoor, setting workable standards is the first order of business.

Most efforts thus far have adopted either the "poverty line" or the "market basket" approach.

The poverty line defines as poor all those whose current cash income is less than a given amount, $3,000 in the case of the present CEA standard.[3] It is by all odds the least precise method of definition, but it has the advantages of being easily understood, simple to work with, and adaptable to reliable and available figures.

Market basket studies define poverty as some multiple (usually twice) of the cost of a subsistence diet. They are a great deal more reliable and discriminating than poverty line studies, but chronically lack dependable data.

Some effort to cross-pollinate the two approaches has been made, one report concluding that either yielded about the same percentage of poor. However, the evidence is slight, and no information exists about comparable degrees of poverty.

Several highly flexible definitions of poverty have been advanced by economists who find insuperable the difficulties in lumping together as co-equals in poverty a sharecropper's family with nine kids and one tired cow, and a retired couple with a fat portfolio and an urgent desire to do nothing more taxing than rock on the front porch of their retirement bungalow.

One school suggests that poverty is relative; thus, at any given moment, a certain proportion of the population is defined as poor. Allowing for the steady change in socially-determined poverty standards, this approach is not as whimsical as it appears at first blush, and in fact has a good correlation with poverty statistics assembled over the years by contemporary investigators.

Another school seeks to define poverty by first establishing who the poor are. This method obliges the investigator to look closely into an individual's circumstances and, by using any or all provisional definitions of poverty, decide whether the individual is poor. Such detailed studies are time-consuming, so relatively few cases

[3] *Economic Report to the President*, prepared by the President's Council of Economic Advisers.

can be handled and statistics of this sort for large cross-sections of the population are unavailable. Nevertheless, this method has the virtue of open-mindedness and is free of the distortions of mass statistics. Once several case-studies are collected, the investigator usually has a good idea of the economic characteristics of poverty, and he may also have good insights into its causes.

***Rags and Patches?***

Who are the poor?

The question is troublesome, partly because the poor are relatively few and often isolated from affluent America, partly because we are blinded to the new poor by lingering images of mortgage foreclosures, tattered clothing, dilapidated hovels, and the other paraphernalia of poverty in years past.

According to figures developed from the CEA's $3,000 poverty line – bear in mind that these figures are meant to invoke the gloomiest possible view of the problem – 33 to 35 million Americans live in poverty, one-third of them children. These include 9.3 million families (30 million people) and some 5 million unattached individuals.[4] Again by CEA figures, 5.4 million families have incomes under $2,000 a year, and 1.3 million unattached individuals have incomes under $1,000.

Even if extravagantly overstated, the figures make it clear that poverty is still a serious matter.

Poverty in the United States cuts across lines of age, sex, education, race, and locality. But it is by no means random. Persons in several distinguishable categories, the most important of which are the aged, farm families, non-whites, and fatherless families, appear among the poor appreciably more frequently than the average. Curiously, unemployment is well down the list, which suggests that much of the government antipoverty effort aimed at alleviating unemployment is misdirected.

Against a figure of 20 per cent poverty overall nationally, statistics indicate that among the poor are:[5]

76% of families with no earners.

48% of families with part-time earners.

34% of families whose heads are unemployed.

47% of families whose heads are 65 or older.

31% of families whose heads are 24 or younger.

37% of families whose heads have under eight years of education.

48% of families whose heads are female.

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[4] *Ibid.*

[5] Prof. Harry G. Johnson, "Poverty and Unemployment."

44% of nonwhite families.
43% of farm families.
84% of nonwhite farm families.

Categories such as these are not to be understood as causes of poverty, but rather as areas that incur a high risk of poverty for other reasons. When the categories overlap, as in the last-mentioned figure, the risk of poverty is much greater.

So the statistics unfold. There are, happily, some pleasant surprises.

In Harlan County, Kentucky – scene of some of the nation's bitterest labor battles, and by any standard a very poor county, indeed – 88 per cent of the families have their own washing machines (even if they lack running water); 67 per cent have television sets; 42 per cent have telephones; and 59 per cent own an automobile. In Tunica County, Mississippi, the poorest county in the poorest state, 52 per cent have television, 46 per cent have autos, and 73 per cent have washing machines.[6]

The Michigan Survey Research Center reported last year that:

– of all families reporting incomes from $2,000 to $3,000 in 1962, 45 per cent owned their own homes, and 66 per cent of these had no mortgage; 42 per cent of the $1,000 to $2,000 bracket owned their homes, and 35 per cent in the under $1,000 bracket.

–in 1960, 14 per cent of families with incomes under $3,000 purchased new cars. 40 per cent of these families owned cars.

– of families with less than $3,000 income in 1960, 700,000 purchased television sets during the year; 500,000 bought refrigerators; and 300,000 bought washing machines.

The large categories of the poor deserve further note:[7]

*The aged.* Numbering 2,581,000 families, this is the largest group of poor. However, the figure is substantially overstated due to the smaller than average size of families headed by the aged, and due also to their generally decreased needs and greater assets (the median net worth of the aged is $8,000 as opposed to $4,500 for the population as a whole). At least one upward statistical adjustment is needed, on the other hand, to allow for medical expenses among the aged two and one-half times the average.

The aged are mostly white, usually live in urban areas, and strongly tend to live as couples (two million). In addition, a half-million elderly women live with their children. The majority of

[6] Herman P. Miller, *Rich Man, Poor Man* (New York: Thomas Y. Crowell Company, 1964).

[7] Miller, *op. cit.*

the aged receive Social Security or a pension; 36 per cent of them receive all of their income from these sources. Many older people own their own home free and clear. Half have incomes over $2,500 a year (half, that is, of the aged poor), and 64 per cent have incomes over $2,000, most of whom would be removed from the rolls of the poor given a more realistic estimate of their circumstances.

*Farm families.* The second largest group of poor is found among farmers, although, again, the number is much inflated due to noncash incomes common on farms in the form of food, fuel, and lodging. A lower consumer price index in rural areas also adds to the overstatement. About 1,570,000 farm families are counted among the poor, the majority of whom have incomes under $2,000.

At the same time, farmers tend to have relatively high assets. One study of functioning farms in 1963 found average net assets of $35,800. Another sampling, of two million farmers, yielded an average net worth of $43,973.

Half the poor farms are in the South. The number of Negro farmers has dropped sharply in recent decades, and the exodus of Negroes to urban areas is continuing. Colored farm families presently number only about a quarter of a million.

Three-hundred thousand farm families are headed by men over sixty-five, but over half are headed by men in the thirty-five to sixty-five bracket. Farm families headed by women are rare.

*Fatherless families.* Sometimes called broken homes, 1,560,000 families are counted in this group, almost all in large metropolitan areas. One-third of all fatherless families are colored (as opposed to a tenth of the general populace), a disproportion sociologists feel reflects the relatively greater instability of Negro marriages.

*Nonwhite families.* The last major category of poor is the nonwhites, of whom 950,000 families live under the poverty line, or almost half the total Negro population of 2,030,000 families. It is altogether likely that the number of Negro poor is understated, although not seriously. In a number of ways, American Negroes still must deal with markets and employment opportunities constricted by discrimination, voluntary segregation, and a variety of other causes. As a result of the diminished supply of goods and services available to him, the Negro's cost of living rises, especially for housing.

### Hidden Roots

The causes of poverty resist economic analysis. They may be lost in the secrets of the mind, as in the case of men too lazy or too nervous to hold a job. Or they may be lost in complex external events, such as caste, custom, or dogged misfortune. Or, routinely, poverty can be caused by the interaction of the internal and the external – the vexing Negro question is a case in point.

What the economist may say is that the market assigns a high risk of poverty to the unproductive and the underproductive. This is corroborated by the high incidence of poverty among small family farmers, the market for whose product has long been depressed, or among fatherless families, in which the mother must stay home and care for her children rather than obtain outside employment, and so on.

It is worthy of remark that one major cause of poverty is poverty itself.

Professor Lampman has observed, "It is interesting that few children, even those of below-average ability, who are not born and raised in poverty, actually end up in poverty. This suggests that poverty is to some extent an inherited disease."[8]

Poverty perpetuates itself from generation to generation by denying to those in its grip the essential means to escape—education, information, training, opportunity, motivation, and even health and strength.

The poor are more frequently ill than the average; they stay ill longer, and their illnesses tend to be more severe; they lose more time from work than the average; they suffer higher than average rates of infant and maternal mortality, they are subject to more severe mental disease, and they die younger.[9]

In severe cases, the poor are constantly wrapped up in sheer survival. When one must worry where the next meal is coming from, one's potential and aspirations are sure to be stunted. There is no time to spare, no will to diversify interests, and no impulse to gain skills or training, or to embark on programs of self-improvement. In time, bitterness or apathy can consume the poor, and thereafter their chances to escape their plight are slim.

### *Where Next?*

Poverty exists and works its hardships, we may conclude, although it is extremely difficult to know with exactitude its characteristics and causes. And we pay

[8] Robert J. Lampman, "Approaches to the Reduction of Poverty" (a paper prepared for the American Economic Association meeting in Chicago, December 30, 1964).

[9] Michael Harrington, "A Glib Fallacy," *The New Leader*, March 30, 1964.

twice for poverty, it has been said; once in wasted potential, again in diverting resources to alleviate its hardships. Even as a warehouse fire in Hong Kong or tornado damage on the Great Plains eventually makes itself felt, through the interdependence of market effects, in our own pocketbooks, so do we very literally pay for the existence of poverty whether we are taxed because of it or not.

Thus, even those among us who prefer not to be their brothers' keepers have an interest in investing in the eradication of poverty. The question is, of course, how shall we set about to achieve this end?

"We are going to try," said the President a year ago, "to take all of the money that we think is unnecessarily being spent and take it from the 'haves' and give it to the 'have nots' that need it so much." Of course Robin Hood and his merry men made a good thing out of it, but the approach is repugnant. It is also self-defeating.

Good ends cannot be gained through bad means, simple theft in this case. The notion of stealing for the good of the poor contains the massive presumption that a third party, here the government, can comprehend completely the lives and goals of two individuals, and adjudge with cosmic wisdom that both would be better off if one were forced to hand over some of his property to the other. The human race in general, and its governments in particular, are a little short of that sort of cosmic wisdom.

### *Consider the Job Corps*

For a typical example of this, contained in the Economic Opportunity Act, consider the Job Corps.

Authorized under Title I of the act, the Job Corps is the most important, the most expensive, and the most ballyhooed of the administration's antipoverty programs. It is for youth of either sex from sixteen to twenty-one who are out of school and unemployed. The youngsters serve in conservation camps or training centers, and receive room, board, clothing and essential services, living and travel expenses, and leave allowances. The cost per capita works out to some $4,700 a year, enough, some hostile editorialists have pointed out, to send a young man to Harvard and pay for his tuition, room, board, books, pocket money, and installments on a sports car.

But it is not only the expense of the Job Corps that appalls; it is the misdirection as well. The corps may be a yummy way to deal with dropouts and delinquents, but what has it to do with poverty? And what will have been achieved when the youngsters decamp? – the art of planting trees is not, after all, a highly marketable skill. Moreover, the youngsters eligible for the program are likely to be the least responsible of their age groups – not so much the deprived, but the drifters and troublemakers. Removing them from whatever disciplinary influence their parents still wield and turning them loose in the northwoods may result in top-grade mayhem.[10]

Such is the cosmic wisdom of two billion dollars' worth of War Against Poverty. The state of New Jersey has already withdrawn from the Job Corps program because it was aggravating rather than solving the school dropout problem. It never occurred to the planners that offering attractive situations to school dropouts would attract students to drop out of school, but of course that's just what happened in New Jersey and is probably happening elsewhere.

Two billion dollars would buy a lot of bread for the hungry. Why not let the hungry keep it?

We will never be able to say with certainty what income and what resources distinguish the poor from the nonpoor. Neither will we ever be able to say with certainty what causes poverty. But we can observe that poverty is always, to a greater or lesser degree, a matter of economic want. We may infer, therefore, that poverty is curable by alleviating want. That is simply a market problem.

### Mass Production through Private Enterprise the Best Hope

The real war, the natural war, against poverty lies in the ability of the market to bring more and better goods and services to the poor more cheaply. It lies in improving entrepreneurial ability to discern the special needs of the poor and satisfy them at prices the poor are willing to pay. It lies in increasing the mobility of the market by removing the fetters and regulations that bind it down, cutting away the tax burden that eats away its productive capacity, and investing our utmost energies into its functioning. It lies, ultimately, in our resolve to be free.

Virtue is not at cross purposes. As we strive to improve our own values and our resources, we help rather than harm those whom we influence morally and economically. Under the contractual economy, one man's productivity is not another man's loss; everybody gains. In a very real sense, we render the poor great service by

[10] Since written, this prediction has been borne out by numerous newspaper accounts of Job Corps incidents including rape, dope-addiction, and all kinds of violence.

leading the best lives we can. True self-interest is profoundly charitable.

But the charity of selflessness has its place, too. One of the most onerous by-products of state welfarism and the ideology that nourishes it is the stultification of our impulse towards charity. Not only does the state seize our means to be charitable, it steals our will to be charitable.

In short, the state takes a decent human instinct and converts it into the dole. It should not be so. There are many ways we could extend a helping hand to the poor that would not attack their pride and initiative. It is not so much a matter of taking a basket of fruit to the slums over the holidays, but of tactfully sharing our experience, training, insights, aspirations, to impart to the poor the will and the knowledge of the way to escape their dilemma. ◈

# PROGRESS or REGRESS

HANS F. SENNHOLZ

NOT LONG AGO, a small Pennsylvania corporation received the Presidential "E" award for its contribution to export trade and the nation's balance of payments. In its fiscal year, 1965, the company sold more than $16 million of its products to foreign customers. Since 1960, its sales abroad returned $55 million to the United States.

It seems that some American policies are reverting to the principles and doctrines of the seventeenth century. Others are repeating the errors and follies of the dark Middle Ages. In 1628 the best known mercantilist writer, Thomas Mun, urged his countrymen always "to sell more to strangers yearly than we consume of theirs in value." In 1667 the most famous of German mercantilist writers, Becher, advocated as

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a most important economic rule and axiom "that it is always better to sell goods to others than to buy goods from others, for the former brings a certain advantage and the latter inevitable damage." In 1712, Charles King in *The British Merchant* declared the export of finished products "in the highest degree beneficial," the export of natural products "so much clear gain," and the corresponding import "so much real loss."

Napoleon Bonaparte applied this idea on a huge scale in his Continental System. He gave public recognition, bestowed medals, and issued citations to Frenchmen who exported manufactured goods to England.

In recent years our *foreign trade policies* gradually have fallen under the sway of seventeenth century economic thought. Our "unfavorable" balance of payments caused the Eisenhower Administration to prohibit American ownership of gold in foreign countries. Since then, the United States government added a "voluntary" program that restricts bank and business investments abroad in order to keep money and gold in the United States. Furthermore, a punitive tax on American purchases of foreign securities aims to curb our heavy losses of gold. Those are some of the steps already taken toward comprehensive government control over all our foreign trade and transactions.

In England, comprehensive foreign exchange control dates back to the darkness of the Middle Ages. Until the reign of Charles I (1628) the office of Royal Exchanger handled all exchange operations and all trade in precious metals.[1] Exportation of bullion and coin was summarily outlawed until 1663 when the prohibition was narrowed to English coins only.

In France exportation of gold and silver was outlawed from the Middle Ages until the eighteenth century. The usual penalty for taking coins out of the realm was death. In Spain and Portugal the export of bullion and coins went on undisturbed for more than 200 years as if no prohibitions existed, even though the penalty was death.

### *The "Spending" Multiplier*

In recent months we have witnessed a marked increase in government and private *spending* and a strong rise in economic activity. The demand for goods and services has been stimulated by expansionary government and Federal Reserve actions. Spending, whether by governments or citizens, is considered the powerful

[1] Cf. Eli F. Heckscher, *Mercantilism*, Vol. II, p. 246.

engine of economic progress and prosperity.

Spendthrifts of all ages have advanced similar economic doctrines. In 1686, for instance, the Austrian writer, Wilhelm Schrötter, Thomas Mun's pupil, wrote: "The more a manufacturer causes money to pass from one hand to another, the more useful it is to the country, for so many people does it maintain." And at another place: "Through the exchange of money the sustenance of so many people is multiplied."

Thrift was regarded as the cause of unemployment, for real income was thought to diminish if money were withdrawn from circulation. For this reason Schrötter wrote a long discussion on "How a Prince Should Limit his Thrift." In 1695 the English writer, Cary, advocated the same principle with even greater clarity. He stated that everybody's spending causes income to rise. If everybody increases his spending, according to Cary, everybody "might then live more plentifully."[2]

### Export Embargoes

On Jan. 21, 1966, the United States and British governments placed *curbs on exportation* of copper in order to protect their shares of dwindling world supplies of the metal. The United States Commerce Department sharply expanded its controls over exports of copper from the United States and clamped tight limits on a broad range of categories, including shipments overseas of copper ores and refined copper.

In England, this policy of "provision" dated back to the twelfth century and lasted until the nineteenth. Export prohibitions on iron, copper, and bell metal were repealed in 1694. Other restrictions that were imposed by Henry II, in 1176 and 1177, lasted until 1822. The high-water mark was reached under Edward III about the middle of the fourteenth century.

In France, export restrictions were first imposed during the thirteenth and fourteenth centuries. They aimed at keeping essential materials, particularly foodstuffs, within the country. At the beginning of the nineteenth century, Napoleon still conducted a "policy of provision" with regard to foodstuffs. The first French law that permitted their exportation was enacted in 1819.[3]

### Early "Poor Laws"

Even our *war on poverty* declared by the present administra-

[2] *An Essay on the State of England, in relation to its Trade*, London, 1695, p. 148 ff; cited in Heckscher. Vol II, p. 209.

[3] *Ibid*, p. 92.

tion is not new at all. During the period of the Stuarts and of the Tudors, the English government endeavored to aid the low income classes of society. The avowed aim of an act of Parliament in 1603 was to raise the wages of textile workers. Minimum wage rates were fixed, and manufacturers were fined one shilling for every penny of wages paid below the prescribed rates. Especially in the years 1629 to 1640, a wide "policy of welfare" was pursued.

In order to prevent unemployment, businessmen were compelled to continue their operations even when suffering losses. They had to keep wages high, and were imprisoned in case of disobedience. For the benefit of the poor, food prices were intensively controlled. Grain was to be sold under cost price.

Already in 1563, the Elizabethan Statute of Artificers tried to regulate labor conditions in all details, and it remained on the books until 1814. In order to assure "just" wages to the working population, wage rates were fixed anew each year by the Justices of the Peace according "to the plenty or scarcity of the time." The Justices in turn had to consider the cost of living by referring to "the prices of all kind of victuals, fuel, raiment and apparel, both linen and woolen, and also house rent." Wage fixing in sixteenth-century London was similar in many respects to wage fixing in London today.

***Regulation of Business***

If you believe that government *regulations of commerce and industry* are new and progressive, you should study the twelfth century English industrial regulations. At least since 1197, the English state had tried to regulate the technique of manufacture. For the cloth industry, for instance, the English government prescribed the various dimensions of cloth, technique of production, dyeing, stretching, finishing, the tools of trade, the packaging and labeling, and so on. Similar regulations, more or less complete, were imposed on all other industries.

In France, Louis XIV, the Sun King, appointed *intendants* and inspectors who were charged with the regulation of industry. From the handling of raw materials to all subsequent stages of production, these servants of the king controlled the production process.

The system of control obviously necessitated a variety of penalties. Frequently, "defective" goods were confiscated or cut to pieces, money fines were imposed, or the right to practice the craft or conduct the business was withdrawn. According to a decree of 1670, the name of the offending merchant was to be posted, and the offender himself could be placed in a pillory for public derision.

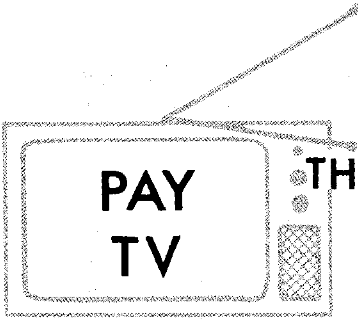
In spite of countless regulations and limitations that aimed to achieve uniform standards, corruption and personal favoritism blunted the controls. The government could make individual exceptions to any prescription. Personal influence was as important as it is today.

### Mercantilism Persists

For instance, the medical profession today labors under the professional discipline of several regulatory agencies. Under the *ancien régime*, training and examination of physicians also was a serious government matter. Under the watchful eyes of the government, ancient quackery was to be perpetuated. In some cases, persons with no training whatsoever were practicing the business of healing and offering salves and medicaments because they curried favor with the inspectors, or succeeded in winning over the lackeys, valets, mistresses, and adventuresses of the Court. Royal charters, permits from princes, and acquired titles of physicians of the king or queen, of surgeons of the navy, and the like, sanctioned all kinds of quackery.

The methods of favoritism, currying favors, obtaining franchises, licenses, or government orders have not changed materially since the seventeenth century. Diamonds and minks, personal connections and right contacts, government positions and offices, seem to retain their significance for professional success and financial reward.

How modern and progressive are our prevailing doctrines and official policies? A historian who attempts to dissect the so-called modern version of political economy may be surprised to discover its true age. Despite claims of originality, many of the modern are of ancient origin. Some stem from the armory of Marxism and Fabian socialism as they were developed during the nineteenth century. Others date back to the age of Mercantilism that prevailed in Western Europe from the sixteenth to the eighteenth century. And still others have survived from the darkness of the Middle Ages. Much that passes for progress today is but a regression into the follies of the past. ◈




# THE RIGHT TO COMPETE— AND TO SPEAK

ELIZABETH GILLETT

ON NOVEMBER 4, 1964, it became illegal in California, by a two-to-one vote of the people, for anyone to sell and broadcast original television programs to you on your home set.

How the California viewer lost his option to pay at home for special TV shows without commercials and not available on other channels is an amazing story in twentieth-century America. It could only happen in this nation's current "mixed economy" of swelling government controls over business, endorsed or unchallenged by the businessmen themselves.

Today, in this "land of the free," enough aroused citizens can still "execute" a business competitor, *and* freedom of speech, simply by majority vote — even as the Athenians "democratically" voted the death of Socrates some 2,300 years ago. Fortunately, also in this country, the victim of such perversions of constitutional government can seek redress by exercising his constitutional right to use the governmental function in a proper way — as the avenue of his self-defense and the agent of legitimate retaliatory force. Sometimes, however, the court costs — in time and money — of such redress can be crippling.

### *The Battle*

The "gadfly" of the Golden State, its victim, is Subscription Television, Inc. (STV), run since October 1963 by Sylvester (Pat) Weaver, veteran of commercial television, former president of National Broadcasting Company. STV was formed in January 1963 with patents on a cable system from Skiatron Electronics and capital from Lear Siegler, Inc. (electronics manufacturer) and Reuben H. Donnelley Corp. (sales promotion organization). In the next year and a half, STV got total public

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financing of around $20 million.

Broadcasting over STV's three simultaneous channels to 2,300 subscribers in Los Angeles began July 17, 1964; to 1,810 subscribers in San Francisco, on August 14, 1964. In both sites, STV gathered fewer starting subscriptions on the movie industry's home-ground than anticipated. Mr. Weaver soon lined up five major film producers to make movies for STV, among other original programing he sought for subscribers each evening during "prime time," 7 to 11 p.m., in compatible color.

Meanwhile, the pay-TV antagonists, led by the Southern California Theatre Owners Association – backed by what is now the National Association of Theatre Owners, Inc., were lining up strategy, funds, and allies, including their former foes, commercial television and even community-antenna companies. All saw a competitive threat in STV. They feared that if pay television caught on and gained enough subscriber-volume, audiences would not come to movie theaters and commercial TV might lose some of its top attractions to pay-TV.

The antagonists persuaded many California residents that pay-TV meant the end of "free" (advertiser-supported) television. They gathered a "war chest" of $1.5 million or more from trade, union, and individual contributors. SCTOA recruited the necessary 468,259 signatures to get Proposition 15 on the California ballot, which would outlaw pay-TV *in the home.*

Despite protests from local Better Business Bureaus and Chambers of Commerce, Southern California print space and air time were flooded with warnings against the predatory menace of pay-TV, which, it was alleged, would end the World Series on "free TV"—despite NBC's contract (recently renewed through 1968).

However, STV had suffered far heavier expenses than planned, thanks to its elaborate programing and time-consuming cable installations, even before this formidable campaign erupted. It did manage to pour $180,000 and much energy into the fight, plus a few thousands contributed by various individuals and unions. But the antagonists were too strong, their propaganda apparently overwhelming. When Proposition 15 was voted into law in November 1964, Mr. Weaver's operation had reportedly been losing between $3,000 and $10,000 a day since its start of operations.

STV suspended broadcasting as of November 10, 1964. It recovered its 6,000 receiver-billing boxes, refunded installation charges, and shelved "orders for

40,000 more [installations]," according to Lewis M. Marcy, STV vice-president. It also retrenched by selling most of its usable equipment and moving a reduced staff to New York City. Its stock's $12 offering price soon reached a low of $1.50. In late March 1965, STV filed a Chapter 11 bankruptcy plea.

But this was *not* the end of STV (whose stock in mid-February 1966 had recovered to over $4) or of the resilient Mr. Weaver, who began plans for a new business of "network program service" in 1965, while directing STV's court battles on the Coast.

### The Turning Point

On May 20, 1965, Judge Irving H. Perluss of the Superior Court of Sacramento County overruled the California Secretary of State's rejection of Mr. Weaver's charter for a *new* subscription television company, submitted on December 9, 1964. Judge Perluss found the Free Television Act, established by favorable initiative vote on Proposition 15, unconstitutional because it "abridges freedom of speech."

About the pay-TV opponents, Judge Perluss observed, the " 'evil' with which they are concerned is speculative and illusory. . . . [namely] that subscription television *may* destroy free television operation" (emphasis his). He also noted that "the charges here made could have been made by the radio industry when television was made available for the home. . . . Invention and progress may not and should not be so restricted. . . ."

The defendant, California's Secretary of State, with *amicus curiae*, the theater-owners, soon appealed this decision.[1] (On March 2, the State Supreme Court in a 6-1 decision agreed with Judge Perluss that the, November 1964 Free Television Act is unconstitutional.) Also outstanding is a decision on STV's conspiracy suit against several California exhibitors' groups and others for $117 million in damages, the verdict on which may also cause an appeal. (STV, in addition, is suing the State of California for $14 million in damages sustained as a result of the Proposition 15 initiative.) For good measure, the theater owners will have to continue lobbying on the FCC's pending decision on the petition of Zenith Corporation, through Teco, Inc., to establish the first *nationwide* pay-TV system (by air, not cable), submitted just before Judge Perluss' decision.

### Significance

What is to be learned from

[1] Paramount's International Telemeter Corp. and the American Civil Liberties Union were *amici curiae* for STV.

these facts and events? Some enduring and fundamental truths underlie them, of economic, political, and moral nature. Besides, this infant industry carries significant implications for its entrepreneurs, its competitors, and its potential customers.

We must begin by stressing that the *quality* of fare offered by the various screen media via different technical and marketing methods is not at issue here. Rather, the *property right* of every businessman to offer his own wares in a free market is the crucial concept denied by the voters of California in the 1964 election. Instead, they legalized the false concept that existing vested interests have the property "right" to *rule* a free market – a contradiction.

As STV's Marcy puts it, "This could be compared to Western Union saying there should be no telephones."

What were STV's property rights? Did the company overstep them? STV sought to sell programs cheaply that it had created and paid for, sent out over cables it had bought and laid (attached to phone wires for which it paid rent), to be received on a subscriber's own TV set by means of a small control box owned and manufactured by STV, which it rented cheaply to the subscriber after a moderate installation fee.

STV never *forced* anyone to subscribe, but tried to win customers on the appeal of its wares: absolutely no commercials, the novelty of paid performances seen in the home by residents and their guests, original programs not to be seen on freevee, limited but convenient viewing times, and low prices in comparison with most alternatives. STV stressed its supplemental nature in relation to commercial TV. It had no cancellations during its few operating months. It made no attempt to crush its competition – except to survive.

Since STV's form of business was a variation of an existing mass communications medium, freedom of speech was also violated when the Free Television Act forced STV to stop operating. Thus, when any individual property rights can be abolished overnight by majority vote, as happened in California, then all related, subsidiary individual rights become legally vulnerable to the mob. Individual rights are safe *only* if property rights – which include the right to sell or trade one's own goods – are legally inalienable, protected by government. Otherwise, blondes and brunettes could vote the exile or extinction of redheads, since one's life is also one's property.

What "crime," then, did STV

commit that persuaded California voters to outlaw it?

The highly publicized "threat" that pay-TV would deprive the low-income viewing masses of "free" TV entertainment by bidding away top shows and talent for the exclusive pleasure of "those willing and able to pay for it," in the words of Robert W. Sarnoff on June 3, 1964 in Beverly Hills, California. While Mr. Sarnoff, then NBC chairman, now RCA president, also deplored "seeking government protection against a pay system that does not use public frequencies," movie exhibitors ignored this qualification and echoed his basic charge in spades.

This righteous-sounding objection is typical of today's muddled economic thinking: "Anything that hurts my business is immoral and ought to be illegal." It means that those who *can* pay for special entertainment should not be permitted to buy it on television. Does Sam, who can afford to buy a car, deprive Jack, who cannot, of anything that is rightfully Jack's? No. Nor does Sam owe a car to Jack simply because Sam has more money.

Almost twenty years ago, in an antitrust decision, exhibitors lost their contractually exclusive right to first runs of new films produced by the movie companies – *before* television of any kind. Had film producers retained (or regained) their ownership of movie theaters, there would be no question today as to who gets new movies first. But since new films can be sold to the highest bidder, and commercial TV now has the biggest audience and pocketbook, it now may be just a matter of time for exhibitors.[2] Now, they want their government-destroyed property right reinstated in a new form by crying wolf at pay-TV.

### Conclusion

The craven, despicable behavior of commercial TV and movie exhibitors toward their new competitor springs from a common default by most twentieth-century U.S. businessmen. They have not troubled to see that consistent, proper restrictions were kept on government relative to business. Instead, some have sought government favors. Many have stood by and watched while government, under varied pressures, took on more powers and usurped property rights of other businessmen. A few even sought these ends.

Now, American communications leaders, in particular, have lost their own freedom of business action. Since the 1920's, when the government confiscated perma-

[2] The networks have already started to help finance a few new movies slated for *first runs on television.*

nently the property rights to airwaves (in the "public interest"), urged by men who should have known better,[3] the mass communications field has become an ever-thickening jungle of intrigue and bureaucratic "pull." One *must* have the government on one's side – and off one's back – to gain business success in broadcasting.

The actions of exhibitors and commercial TV toward pay-TV are only understandable if we see their roles as fellow creators of a Frankenstein monster: expanding, manipulative governmental power. It has turned on them, and they do not know where it will strike next; they seek to win safety from the tyrant by feeding it victims other than themselves. Having sacrificed their own property rights – to the air waves and to integrated production and distribution of their product – they do not shrink at sacrificing the property rights of anyone else, especially a competitor for part of their lethargic market.

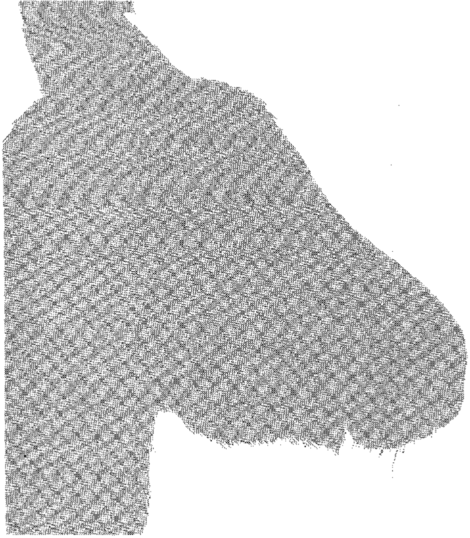
The twentieth-century United States has gained tremendous wealth and technological achievements, thanks primarily to the precedent-setting, arduous efforts of its politically free men of the nineteenth century who began with their own property – often slight at first – and competed with other men like themselves in a market almost entirely free of governmental restrictions.

If the California theater owners and commercial TV can keep their competition outlawed, this will mean a regression to the medieval guild system. There, all innovators were imprisoned and old ways of doing things were forcefully enshrined for centuries, to everyone's loss. Poverty, ignorance, decadence, and serfdom were the result. (Do Californians want this?)

Under free-enterprise capitalism government must protect the individual's right to buy and sell as best he can, *not* guarantee him a captive market. Today's malicious stampede to manipulate government for one's own benefit at the direct expense of some other citizen or group or business enterprise must be halted. So must the evil of allowing anyone's property rights, and the derived rights like freedom of speech, to be voted away by the majority or stripped away by court decision.

If individual property and business initiative do not receive their just, legal protection, then all Americans risk losing present and future benefits from the riches that only free, independent men ever have produced—or ever will.

[3] For a full discussion of these matters, see "The Property Status of the Airwaves," by Ayn Rand, in *The Objectivist Newsletter* of April 1964.



# MARKET PRICE OF BURROS

AL BELLERUE

SEVERAL YEARS AGO, my wife and I purchased a string of four burros for our family. We built a stable and corral out of wood and assigned each of our daughters a duty-day to perform the required chores for the animals. The sale price of the burros was $200 and the material for the stable cost $100.

For a number of months we had great fun and the children willingly did their chores. They did not even object too much, at first, to the forced hikes in the hot desert sun to fetch Daddy and the truck to tow a balking burro home.

We never ceased to marvel at how any one of the burros, in the midst of a twenty-mile-per-hour gallop, could spontaneously come to a dead stop. Unfortunately, none of the riders in our family could ever achieve this feat at the same time as the burro did. We were able to achieve the dead stop all right, but always at least twenty feet beyond the burro.

Needless to say, interest in burro-riding was waning; and it was a good thing, because our time and efforts were now being consumed hunting the critters. Nearly every morning we would

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Mr. Bellerue operates a cactus-growing business in the high desert area of Southern California. He was President of the Desert Electric Cooperative in Twentynine Palms, the members of which recently elected to sell the business to the Southern California Edison Company to avail themselves of the lower rates offered by private enterprise.

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find they had eaten their way out of the corral. What an appetite they had for wood! We thought they might need more exercise and that a larger area to romp in might solve the problem; so we fenced in the entire fifteen acres with barbed wire. Our total investment was now well over $600, and the price of feed was increasing every month.

Do you think those burros appreciated what we did for them? No siree! They spent every day on the family patio and their nights were spent trying to break into the house. The day after they ate the wild bird feed, wooden feeder box and all, we sold the entire lot to a local horse trader for $100. Peace and tranquillity has returned to our Rancho. Even the horse trader is happy because he sold them the next day for a profit.

This brings me to the subject of market price and value. The value of those burros to me was something less than $100 at the time of the sale. To be truthful, I might have paid someone to take them. The value of the burros to the horse trader was more than $100 or that amount for which he could sell them and still make a profit. Value, therefore, is completely subjective. Market price, however, was that figure mutually agreed upon, wherein we both coud benefit from the transaction, based upon our own subjective values at opposite ends of the cushion of profit.

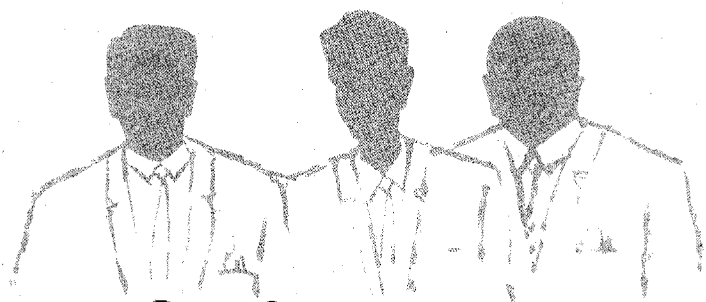
One may mistakenly think that I did not gain when I first purchased the burros. It must be remembered that their value to me at that time was higher than when I later sold them. In other words, at the time I purchased the burros, I wanted them more than I wanted the money I voluntarily paid for them. Therefore, I gained from the original purchase as well as from the sale, when I couldn't get rid of the ornery critters fast enough. The market price of burros, as well as of everything else, can only be determined by the buyer and the seller and their respective value judgments at the time of the transaction. ◈

IDEAS ON LIBERTY

***Mutual Gain***

SO LONG as the basic right of ownership is preserved, a contemplated trade is never a conflict; it is an attempted act of cooperation under which *both* parties, not merely one, stand to benefit.

F. A. HARPER, *A Just Price and Emergency Price Fixing*



# WILL THE Real PRICE ADMINISTRATOR please stand up!

IRVING E. HOWARD

AMERICANS saw a display of naked arbitrary power in the recent roll-back of aluminum, copper, and later, steel prices in response to government threats or "persuasion." It brought a warning comment in *The Wall Street Journal* (January 5, 1966): "The structural steel price increase announced in the past few days threatens to usher in a new era of informal but intensive Presidential price control."

Government intervention in the pricing process is not new in American history. In fact, it has a long pedigree in antitrust legislation, as recounted by former Federal Trade Commissioner, Lowell Mason:

> As an administrator of two antitrust laws diametrically opposed to each other, it was not difficult for me to accuse everybody at a trade convention with being some kind of a lawbreaker. Either they were all charging everyone the same prices, indicating a violation of the Sherman Act, or they were not charging everyone the same price, a circumstance indicating a violation of the Robinson-Patman Act.

Yet the purpose of the Sherman Antitrust Act was to protect competition and keep the market free. While the Act was being debated in the Senate in 1890, Senator

The Reverend Mr. Howard is assistant editor of *Christian Economics* and is working toward a doctoral degree in economics at New York University.

Hoar declared: "The great thing that this bill does, except affording a remedy, is to extend the common-law principles, which protected fair competition in trade in old times in England, to international and interstate commerce in the United States."

The legislators sincerely thought that they were enlarging freedom again in 1914 when they passed the Federal Trade Commission Act and the Clayton Act. The Federal Trade Commission became an investigative body of which Lowell Mason was an administrator. By forbidding discrimination in price between different purchasers of commodities, the Clayton Act introduced the contradiction to which Mr. Mason referred.

### *Cost-of-Production Theory of Pricing*

In 1936, still bent on keeping the market free, the legislators passed the Robinson-Patman Act which, among other things, forbids price discrimination in the form of discounts, rebates, or advertising allowances greater than available to competitors. The drafters of this Act reasoned that prices are discriminatory if they are not matched by like differences in costs. This kind of thinking reaches back to Adam Smith, David Ricardo, and to the labor theory of value. Is economic value determined by the cost of labor involved in manufacture? Economists exploded this notion a century ago, and the gist of their rebuttal is found in a simple example: "Pearls are not valuable because men dive for them, but men dive for them because they are valuable." The price of a good – its economic value – is measured by the satisfaction the economic good brings to the consumer.

For example, what of a theater that charges a lower price for a matinee than for the evening performance? It is the same show. The costs of producing it are practically the same. Is the theater guilty of price discrimination by charging a lower price in the afternoon? If differences in cost are to be the criterion, they are. If the satisfaction of the consumer (demand) is the criterion, they are not. The Robinson-Patman Act foundered upon this misunderstanding of the nature of economic value.

Moreover, the history of antitrust legislation in America illustrates another principle emphasized by Dr. Ludwig von Mises – namely, that one government intervention inevitably leads to another, and that to another, until all freedom of movement is lost in a maze of government regulations.

**Berle and Means**

It was against such a background that Adolphe A. Berle and Gardner C. Means set forth their theory of "administered prices." Means' book, *Pricing Power and the Public Interest. A Study Based on Steel,*[1] contains the most complete statement of the theory.

By an "administered price" these economists mean a price set by administrative action, rather than one resulting from market forces, and held constant over a period of time. They contend that large corporations in oligopolistic markets (few sellers and many buyers) have sufficient control of the market to do this.

At first, Dr. Means thought he had found the cause of the Great Depression. Large corporations, he argued, held their prices firm and varied their production, laying off men, creating unemployment, and thus worsening the depression.

In 1939, Dr. Jules Backman published "Price Flexibility and Changes in Production"[2] in which he said: "Not so!" He concluded that he could find no clear-cut relationship between specific commodity prices and production changes.

In 1942, Professor Alfred C. Neal joined Dr. Jules Backman in rejecting Means' thesis. In his study, *Industrial Concentration and Price Flexibility,* he commented:

> . . . one must be excused for wondering why so much ink has been spilled in debating these issues when there has been so little theoretical presumption in favor of the conclusions under dispute. There is, perhaps, much truth in Du Brul's remark that if Mr. Means' thesis had not been useful as a tool of politics, it would have died an early death.[3]

Political value it has had! The Berle-Means theory resulted in the Kefauver Committee making a three-year study of steel, automobile, and drug prices beginning in 1957.

Out of the hearings of this Committee, Dr. Means drew much material for his book, *Pricing Power and the Public Interest.* In this book, published in 1962, Dr. Means reversed his earlier theory and argued that administered prices cause an inflation. In fact, he coined the phrase, "administered inflation," to describe the inflation in 1955-1958. Professor

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[1] Means, Gardner C., *Pricing Power and the Public Interest. A Study Based on Steel* (New York: Harper and Brothers, 1962).

[2] Backman, Jules, "Price Flexibility and Changes in Production," *The Conference Board Bulletin,* National Industrial Conference Board, New York, February 20, 1939, pp. 45, 51.

[3] Neal, Alfred C., *Industrial Concentration and Price Inflexibility,* American Council on Public Affairs, 1942, p. 37.

Gottfried Haberler has thoroughly discredited Dr. Means' "administered inflation" in his book, *Inflation — Its Causes and Cures*,[4] but the mere fact that "administered prices" were supposed to have caused a deflation, and then also to have caused an inflation, should have been enough to raise a suspicion regarding the inherent consistence of Means' thesis.

### Price and Wage Guideposts

However, the theory had political value, and politicians were soon to make the most of it. In 1962, the *Economic Report to the President* suggested wage and price guideposts as a ceiling for increases in wages and prices. In adopting this guidepost concept, the Council of Economic Advisers were tacitly admitting that they had accepted the theory that prices and wages are administered and are not the result of market forces. Consequently, the conclusion was soon reached that, since the prices of commodities manufactured by large corporations are determined by management rather than by the market, the government should control the pricing policy. Wages have remained strangely immune to the application of the guidepost standard.

[4] Haberler, Gottfried, *Inflation. Its Causes and Cures* (Washington, D. C.: American Enterprise Association, 1960), p. 40-45.

The recent application of the guidepost to aluminum, copper, and steel prices has ignored the fact that the philosophy behind the guidepost concept, the business-administered price theory, has never been proved. In fact, evidence has been accumulating that the relative inflexibility of the prices under discussion has been the result of inflexible wage rates which *have been administered* by national labor unions, and also stems from other inflexibilities introduced into the economy by government fixed rates, such as freight rates, public utility rates, postal rates, interest rates — to say nothing of agricultural support prices and a host of other government controlled prices. These are "administered prices" indeed!

The so-called "administered prices" of private industry are very sensitive to foreign competition. Both steel and automobile prices, favorite whipping boys of the Kefauver Committee, have been driven down by foreign competition since this debate started. Moreover, metals all face competition from substitute materials. While prices in large corporations cannot be determined by an auction like securities on the stock exchange, nevertheless, management cannot disregard all the different kinds of competition its product must face when setting its asking prices.

There is much more to competition than Berle and Means and their followers are willing to admit. Not only is there competition between firms within an industry, and companies within a family, such as the General Motors family, but there is competition between very different industries. There is also competition from all kinds of substitutes. There is nonprice competition in quality and services. In short, the real world is much more competitive than it is painted by some economists.

#### *The Magical "3.2"*

Not only is the "administered price" theory open to question, but the guidepost itself is of doubtful value as a measure of prices. The guidepost is the ratio between total output and total man-hour input. It was devised by economists interested in national economic growth as a rough measure of productivity. Politicians have applied it to prices and wages.

In 1965, the government arrived at 3.2 per cent as its guidepost. Some statisticians thought it should be 3.4 per cent and others chose another percentage, but is any percentage trustworthy as a measure of prices and wages? Total output and total man-hour input are only rough estimates and are not precise enough to determine the specific price of anything. Moreover, at best, the guidepost ratio is a five-year moving average! How many individuals or companies are average? The price and wage increases of some should be above and others below that five year average!

Nevertheless, the guidepost ratio was the yardstick the government used in its recent assault upon aluminum, copper, and steel. A price resulting from such dictation, *is* an "administered price."

The guideposts are supposed to be "voluntary" standards, but as Mr. George Champion, chairman of the Chase Manhattan Bank, has observed, "Always in the background is the threat that failure to comply voluntarily with the guidelines would bring measures applied, for the most part, without debate in Congress or legal appeal in the courts."

#### *The Limits of Tolerance*

The most disappointing aspect of this new development between government and business has been the sheeplike acceptance of government domination by the business community.

"This is no time to be timid of tone or fearful of economic reprisal," Mr. Champion warned. "If we have men afraid of standing up to the government, then we have the strongest indictment of 'big government' that could ever be imagined. When that happens, economic freedom in our country will be dead."

The Berle-Means thesis that large corporations fix inflexible prices has been exploded by competent economists. Nevertheless, bureaucrats have used the theory to justify government administered prices. Now we see where the "administered price" theorists were going! Now the real price administrator has stood up and has been recognized! ◈

# Of Birds and Men

To express a faith in freedom is to invite warnings that men and women have behaved badly in the past and might do worse in the future if more free to do so. The study of mankind under the varying degrees and conditions of human bondage that have prevailed throughout history indeed tends to destroy one's faith in man. But we do not know, nor can we predict from man's sordid past, his potentiality if he were free.

For further insight into human nature, investigators often have observed and studied the behavior of animals. One such study recently was reported in the German weekly, *Der Spiegel* (No. 40, 1956).

WHAT the investigator saw reminded him of a list of cases on a court calendar: adultery, alienation of affections, bigamy, rape, incest, assault upon neighbors and within families.

These crimes were being committed, not in the slum district of a great city, but along a hedge of lilacs on the grounds of the Wilhelminenberg Biological Station in Vienna. And the perpetrators of these misbehaviors were male and female specimens of a group of cattle egrets, a bird about half the size of the stork, imported from Tunisia by the famed animal psychologist, Professor Otto Koenig. His hope in this experiment was to discover what might be expected of human beings condemned to a sort of super-welfare-state, so fully mechanized that men need spend hardly any energy to subsist, protected by the state against sickness and old age, freed from work and care for a life of leisure.

### *Similarity to Human Community*

From earlier observations under natural conditions along the grassy shores of Neusiedler Lake near Vienna, Koenig had found that certain types of herons which breed and nest in colonies develop compact social structures similar to the human family, tribe, and community. This is why he chose the colony of cattle egrets for his model welfare state, observing them over a period of six years in a large enclosure outside the window of his study, providing them with every necessity for life and comfort: food, water, bathing facilities, and nesting materials.

At the 1965 annual meeting of the German Ornithological Society in Constance, Professor Koenig first reported the results of his prolonged investigation of cattle egret response to the guaranteed life, stressing two points:

1. The social order of the colony completely collapsed.

2. The sexual activity of the feathered creatures became abnormal.

Within the enclosure, food always was at hand in abundance, so there was no need to go off in search of it. All members of the colony remained continually in sight of one another, literally pressed together. More frequently than under normal conditions there was strife, often bitter fighting. And as the fighting increased, so did the sexual activity. While a male was feeding, his mate might be raped by a neighbor, leaving her young in the nest to be molested by others. During the breeding season, the hackles of the females were torn and bloodied by the claws of the sex-crazed males.

Koenig also noted a sexual jealousy not found among wild egrets or herons. In their natural state, other herons of a colony are unconcerned about the home life of a couple; but in the Viennese cage, the mating act often evoked interference from other males.

Three or four couples of the experimental egrets frequently banded together. Nest-building among egrets usually is initiated by the male, who selects the site and then lures his companion to it. But in Koenig's enclosure, two or three females often would answer the call to the nest; nor was it uncommon to find a sister or daughter of the male in his harem. Such polygamy became critical during the brooding period, with other females sitting atop the chief brooder. Now and again, Koenig saw egrets piled three deep on the eggs. Such congestion disturbed the normal pattern of parents taking turns sitting, and many of the eggs were either broken or kicked out of the nest. Thus, the negligence induced by welfarism resulted in declining numbers of healthy young egrets in the colony.

The rearing of the young birds also became a problem. In wild colonies, as soon as the young herons are able to leave the nest they gather among the reeds for games of "catch" by which they learn to capture insects. So strong is their urge for self-reliance that the fledglings often fail to return home and parents must seek them out to feed them.

In the Viennese experimental cage, however, the young egrets were simply beggars, incessantly pestering their ever-present elders for food. And apparently in search of quiet, the parents obliged, stuffing the young ones not only to excess, but far beyond the time when they should have been able to care for themselves. The younger birds would be found still begging, even after they had offspring of their own – the grandparents caring for them all.

Because of similarities between these egrets and other bipeds, Professor Koenig believes that what happened to the birds in his yard under super-welfare-state conditions might similarly affect human beings exposed to effortless material abundance without need or incentive for self-responsibility. ◈

IDEAS ON LIBERTY

***Against Nature***

"IN MOUNT RAINIER NATIONAL PARK, Washington, a ranger cautions visitors against feeding the animals. The ranger explains that deer grow accustomed to visitors' handouts and lose ability to fend for themselves. Bears, he says, come to believe that free food Chipmunks and squirrels congregate where handouts are supplied, is their due – and become grouchy and violent if they don't get it. and thus upset the balance of nature."

From an editorial in *The Richmond News Leader*

# KING OF THE ROAD

JIMMY HOFFA is the current devil among labor leaders. But a close reading of *Hoffa and the Teamsters: a Study of Union Power,* by Ralph and Estelle James (Van Nostrand, $6.95), leaves you wondering whether he is any worse or better than other professional brokers of the workingman's "interests." The Jameses make you feel that Hoffa differs from others in the guild mainly by his contempt for public relations. He has been ruthless in his drive for power, and he uses his pension fund to build influence, and he is cynical about the law (which he regards as something to be manipulated). But if you accept his premise that society is a battleground of warring interests, everything that he does falls logically into place. His end, which is to get good contracts for his truckers, is the excuse for the means, which are elaborated in terms of Chinese-style "fight, fight, talk, talk" military campaigning.

The genesis of this book about Hoffa is curious, and explains a good deal about Jimmy's "take it or leave it" character. When Dr. James was teaching industrial relations at the Massachusetts Institute of Technology in 1961, he induced Hoffa to give a talk to his students. Hoffa accepted on condition that he might quit after getting two "unintelligent" questions in a row. He spoke for three hours, complaining that government investigators, reporters, and academicians do not depict how the world really operates. Finally, after defending certain notorious figures involved in corruption cases, he challenged Dr. James to travel with him for six months, disguised as his assistant, to learn the "truth" about unionism.

Dr. James took him up on the offer, insisting, however, that he pay his own travel bills. As he and his wife dug deeper into the Teamsters' activities, Dr. James constantly expected Hoffa to call the deal off. But, possibly because he felt he had less to fear from two objective academicians than he had to fear from investigator Bobby Kennedy (whom he calls the "little monster"), Hoffa let the Jameses carry their project through. Hoffa registered some personal objections to the Jameses' characterization of him as "an extremely competent, complex, and ambiguous individual, subject to rapidly changing moods and substantial self-deception." But, other than to say "you make me look like a bum," he did nothing to get them to change a word in the manuscript.

### *Exploiting the Situation*

As a matter of fact, it is not Hoffa who "looks like a bum" in this book, it is the American people. The truckers, whether they are local carters or long-distance delivery men, travel on roads that are the property of federal, state, and municipal governments, and "society," as the owner of the highways, could presumably make its own rules for road use. But the "owner," in this case, has stood aside. The "rules of the road" don't insist on an open road for anybody.

In his campaign to control the use of the roads insofar as commercial haulage is concerned, Hoffa has been a great military strategist. Though he cut his eye teeth in the labor wars of Detroit, Hoffa really went to school under Farrell Dobbs and the three Dunne brothers of Minneapolis. Dobbs and the Dunne brothers were Trotskyite Marxists who thought of assailing the capitalist system at its crucial bottlenecks. The road system of America, to Dobbs and the Dunnes, was of jugular importance. Anyone who could impose his will on the highways could obviously dictate his terms to society as a whole.

But where Dobbs and the Dunne brothers were ideologues, Jimmy Hoffa is a pragmatist. His idea is not to overthrow capitalism, but to milk it for all that it will yield for the teamsters. Instead of being a revolutionary, he is a twentieth century robber baron, reaching for control of the "narrows" in the interests of his own band of followers.

### *Coming and Going*

Crucial to Hoffa's strategy is his notion of "leapfrogging." By organizing over-the-road truckers, he can dictate what goes into the towns to be picked up by local carters. Or, by *organizing at the* local end, he can impose his terms on long-distance carriers who need access to the town. There is "leverage" in all this, for the right to "interline"—i.e., to transfer cargo from one carrier to another—is essential to most business survival. All you have to do is to cut the cartage connections at a single point to get the whole circuit under your control.

Having picked up the "leapfrogging" concept from Farrell Dobbs's first operations in the Middle West, Hoffa has applied it on a national scale. Nobody can stand out against it. If the businessmen of Omaha, say, resist dealing with Hoffa, they may wake up to discover that shipments into Nebraska have been cut off at Denver and Cheyenne, and that nothing is coming up from a strike-bound Kansas City.

### Open-end Grievances

Since local unions are dependent on handling "interlined" goods from the outside world, Hoffa has the key to total union discipline in his hand. He has used the key to "level up" wages in depressed trucking areas, as in Philadelphia and Los Angeles, and to restrain union exuberance in the high-wage San Francisco Bay region to the end of making his deals in Oregon and Idaho look better. Much of Hoffa's power comes from his detailed economic knowledge of what employers will be able to bear. ("It's a lousy contract," he said in one instance, "but if we take any more he'll go broke.") This general concern with profitability has led to charges of "selling out to management." But Hoffa lets his critics talk.

The laws prohibiting secondary boycotts have not restrained Hoffa's application of "leapfrogging" techniques. By insisting on his own patented "open-end grievance procedures," Hoffa can always threaten a strike wherever one is necessary in order to affect a decision elsewhere. The "connection" between a strike in Oklahoma City over the application of freight interchange rules and a campaign to adjust wages somewhere else may not be admitted, but Hoffa works his "coincidences" with supreme contempt for government lawyers. If there is always an "open-end grievance" to take up, there can be nothing but a series of "legal primary disputes."

The Jameses make it plain that Hoffa's organizing and bargaining strength derive from a canny man's ability to use the existing social codes to his own advantage. In doing this he does not differ from a Walter Reuther, or a George Meany, or a Mike Quill. The "law" may be circumvented, but if courts won't issue injunctions and governors won't call out national guards, then there is little use in putting new laws on the books.

### *Changing the Climate*

But what are we to do about monopolistic union power? What if Jimmy Hoffa were to tie up the country? Hoffa himself derides the possibility of a "national strike." He has studied the transit systems of the United States, and has it figured out that he could substantially halt trucking all across the country by striking "six strategic terminal cities." The Jameses say that in case of a "six city" terminal strike, the main body of Teamsters, thrown out of work as "a consequence of interrupted interlining, would collect unemployment compensation from the government instead of draining strike benefits from the IBT treasury." Thus the citizens of a nation would find legality used against them. They would be feeding the union that was throttling their production.

The Jameses say that "Hoffa is unlikely to test this plan." But this is just another way of saying that Hoffa will get what he wants anyway. Even if he goes to jail it would hardly make any difference, for Hoffa is the product of a way of thinking about unions, and someone would quickly move up to take his place. ◈

▶ PUBLIC REGULATION OF THE RELIGIOUS USE OF LAND by James E. Curry (Charlottesville, Virginia: The Mitchie Company, 1964), 429 pp. $12.50.

▶ CHURCH WEALTH AND BUSINESS INCOME by Martin A. Larson (New York: Philosophical Library, Inc., 1965), 120 pp. $3.95.

*Reviewed by Edmund A. Opitz*

NEW CHURCH construction is going on all over this land, at the rate of about a billion dollar's worth a year. Every one of these new churches needs a suitable site for its buildings, parking lot, and grounds, so church committees go into the real estate market and dicker with potential sellers of land for the location of their choice. This is as it should be. But then they bump into the local zoning board, an agency operating in just about every major community in the nation except Houston. The church building committee may have completed arrangements with the architect, the bankers, the builder, the real estate men, and then be told by the zoning board backed by the authority of the police power: "You can't build your church here!" At which point the famed partition between church and state erodes a bit.

This is where Mr. Curry's unique book comes in. The author is a veteran of more than thirty years of law practice, specializing in the kind of cases treated in this book. Actually, this is several volumes in one, each aimed at a different category of reader. Serious students of the church-state relationships are familiar with political impairments of religious liberty, but lack knowledge of the kind of impairments that go on at the level of mere zoning. This book's careful legal analysis of one hundred court cases involving churches with location problems makes it an indispensable text for the lawyer, and a church group about to build might save itself a lot of grief by consulting this book.

### *Zoned for Worship*

Those concerned with the problem of zoning as such will find much meat here. And those who raise such philosophical questions as What is religion? and What is the Church? will note well the impropriety of dumping such questions into the lap of the courts. No branch of government, however well disposed, is equipped in the nature of the case, to tackle questions of this order. Small wonder, then, that the results are so generally unsatisfactory! We have reached the critical point in at least one state where the Court of Appeals has declared, in effect, that a community may actually ban churches by refusing a congregation the right to buy land and build! Simple religious or antireligious prejudice is always with us, and we can take it in stride – unless it joins forces with the police power. But this is something different. Zealots willing to invoke nonreligious means to further their one true faith were once the problem; but now the threat arises from the mindless, noiseless, impersonal processes of zoning laws, or appears in the wake of "urban renewal."

Raise our sights and it becomes evident that the denial of religious liberty by means of a zoning ordinance is but one instance of a growing disposition to turn all sorts of social problems over to government. Government is uniquely an agency for redressing injury. Confine it to this difficult job and the peaceful relationships of men in society are no longer its concern; it merely acts to deter and punish acts of aggression, and men are free to administer their private affiairs. The public sector is small and well defined. In a society so organized, power is dispersed and limited; there is no one big lever by which society is moved, and so the opportunities are minimized for evil men to seize control and do a lot of harm. Such an attitude toward government – characteristic of the old

Whig-Classical Liberal tradition – cannot but appear mean and niggardly among a people afflicted with ideas of grandeur.

### *The Man in Charge*

Modern *hubris* dictates that the political problem be conceived as the task of concentrating power in society into one gigantic lever capable of getting the whole show into operation, then putting virtuous men in charge in order to achieve great good. Once such a political scheme gets going the people will be permitted one last decision; they will be allowed to decide who will, from now on, be given power to make their decisions for them! This is Tocqueville's "democratic despotism," and it is a measure of our decline that we insist on calling it "freedom."

The tumult and the shouting about Church and State goes on at the level of Bible reading and prayers in the classroom. Generation after generation of Americans violated the First Amendment, we are to believe, but virtually no one noticed it – until now. Then, all of a sudden, and with the help of some eminent jurists, we were made aware that the wall was not in place; and we joined forces to prop it back by banning religious exercises in the tax-supported schools.

But while our attention is engaged at this largely theoretical level we have been backed into a much more serious problem. Few, if any, local zoning boards are animated by antireligious feelings; they simply accept the commonly held belief that most folks don't know how to use their property or plan their lives, and therefore somebody else should tell them. As the cartoon character, Peanuts, says: "The world is full of people who long to act in an advisory capacity." Better yet, in a managerial capacity.

The First Amendment to the Constitution places a restriction on Congress. Congress, it says, shall take no steps leading to an official religion. No national church may be established here, nor is any man to be impeded in the exercise of his religious preferences. Heresy is not a crime. Jefferson's phrase, "wall of separation," came later, and although it is repeated on every side today, it does not accurately reflect American mores or practices, nor the mind of the First Congress. These men, after passing the First Amendment, actually voted money to send four missionaries to the Indians; for they believed that sound morals are necessary for the civil order, and that religious instruction is the indispensable basis for morality. It was in this context that religious, educational, and charitable institutions were granted certain exemptions from taxation.

Taxation then was a means of financing the operations of government; now, taxation is largely an instrument for accomplishing social change. Political exactions employed for this purpose are necessarily unfair, and in order for the governing class to secure the compliance of the educational and religious communities it must introduce some "sweeteners" in the form of exemptions. At the same time, this iniquitous tax structure will provoke other sectors of society to invent all sorts of ingenious schemes for living with an impossible situation. If the present system of taxation were applied rigorously across the boards to all men and organizations alike it would not last a week, and if anyone had thought it would be so applied it never would have been foisted upon us in the first place!

### *The Growing Scope and Problem of Tax Exemption*

Mr. Larson, author of the second book under review, does not see it this way at all, but rather regards the various loopholes in the tax laws as beating government out of what rightfully belongs to it. Nevertheless, he has brought together a host of fascinating and disquieting statistics, nearly all from unimpeachable sources.

Mr. Larson focuses on four cities, Buffalo, Baltimore, Washington and Denver, which collectively typify America, and then he argues convincingly that he has valid grounds for extrapolating to arrive at a reliable estimate for the country at large. The figures are well nigh incredible, even as pertains to the market value of the plant owned by religious, educational, and charitable institutions used for those particular purposes; but these enterprises also own and operate various businesses, and they have enormous holdings of stocks and bonds. These chunks of real estate and other property, and the income deriving from them, are largely tax exempt, and percentagewise they increase year by year. During the past generation in Buffalo, for instance, the ratio of exempt to taxable real estate rose from 19 per cent to 44 per cent; and more than half of this exempt property is held by churches and other religious institutions. The picture in every part of the country is much the same, but there's no way of straightening out this mess short of confining government within its proper boundaries so that freedom might perform its remedial work in the economic, educational, and religious sectors of society. ◈

▶ SCIENTIFIC MAN VERSUS POWER POLITICS by Hans J. Morgenthau (Chicago: Phoenix Books, 1965), 245 pp. $1.95 (paper).

*Reviewed by Robert M. Thornton*

THE MEN who had most to do with launching this republic had no illusions about human nature. They viewed man as a flawed creature, and hence not to be trusted with power over his fellows; and they sensed the tragic dimension of human life. As John Jay put it in one of his Federalist papers: "I do not expect that mankind will, before the millennium, be what they ought to be; and therefore, in my opinion, every political theory which does not regard them *as being what they are*, will prove abortive."

This realistic view of human nature, dominant in our tradition since the days of the Greeks, was already giving way to another outlook even as Jay wrote. The optimistic rationalism of the Enlightenment equated evil with ignorance. It held out the promise that a perfect human society was attainable just as soon as the boundaries of knowledge were pushed back to the edge of things – in a generation or two at most.

Professor Morgenthau criticizes this philosophy in no uncertain terms: "Rationalism misunderstands the nature of the world, and the nature of reason itself. It sees the world dominated by reason throughout, an independent and self-sufficient force which cannot fail, sooner or later, to eliminate the still remaining vestiges of unreason. Evil, then, is a mere negative quality, the absence of something whose presence would be good. It can be conceived only as lack of reason and is incapable of positive determination based upon its own intrinsic qualities.

"This philosophical and ethical monism, which is so characteristic of the rationalistic mode of thought, is a deviation from the tradition of Western thought. In this tradition God is challenged by the devil, who is conceived as a permanent and necessary element in the order of the world. The sinfulness of man is likewise conceived, from Duns Scotus and Thomas Aquinas to Luther, not as an accidental disturbance of the order of the world sure to be overcome by a gradual development toward the good, but as an inescapable necessity which gives meaning to the existence of man and which only an act of grace or salvation in another world is able to overcome."

Lacking this sober view of human nature, people think in exuberant terms of Man taking charge of his destiny – which means in practice that some men will ride herd on their fellows. Politics will be regarded as a science of control, rather than an art. The social engineer, coming to the fore, will try to impose a rational order on society, and any problems which arise will be submitted to "fact-finders," "neutral parties," or other "experts." People must never be allowed to work out and resolve their problems in freedom and by their own devices. Shepherded by those who know best, they will be protected from the consequences of their own folly.

Some people are wiser than the rest of us, and many people are foolish indeed; but none are so foolish as those who think themselves wise enough to assume control of human affairs. ◈

▶ BURKE AND THE NATURE OF POLITICS by Carl B. Cone (Lexington: University of Kentucky Press, Vol. I, 1957, 415 pp.; Vol. II, 1964, 527 pp.), $15.00 the set.

*Reviewed by Edmund A. Opitz*

EDMUND BURKE may have suffered from misinterpretation during his own lifetime as well as from commentators since his death, but no one can say he has been neglected. Controversy swirled about him while he was alive, and has not ceased. The note on which he ended his public career, his fierce antagonism to the revolution in France, still sounds above the tumult of modern politics. For there is a sense in which the French Revolution is the fountainhead of the various social movements which today claim men's allegiance and divide their loyalties.

The collectivist ideology appears in several guises today, but its parentage may be traced to the ideas unleashed in eighteenth century France. Likewise, there are several varieties of anticollectivism, but each owes something to Burke's response to the challenge to European civilization posed by the *Philosophes*. Stated differently, it may be said that there are, broadly speaking, two conflicting philosophies of man and social organization; today's neoliberalism, with its offshoots and extensions, and conservatism-libertarianism similarly developed. The former stems directly from the French Revolution; the latter's point of departure is Burke's mighty answer to that revolution.

### Differences Ignored

Neoliberalism overlooks the "accidents" that divide human beings into male and female, Englishmen and Frenchmen, Moslem and Hindu, and the like; it reduces every unique person to a mere unit of humanity. Its advanced thinkers, struck by the evils which plague mankind and regarding society as a mere artifact, draw up a blueprint for a form of social organization in which every human unit has its place and awaits only the political command which will cause it to function properly in lock step with every other unit. There will, of course, be recalcitrants who obstruct the march toward utopia, so the Plan includes an active enforcement agency to take care of such people! But one day, when all the lingering effects of ancient class antagonisms are beaten and bred out of the citizenry, Man will have his utopia!

The opponent of this nightmare, whatever he chooses to call the banner he serves under, takes account of the variety and complexity of human beings, regarding them as imperfect and imperfectible in this life. Of course, there are evils in human affairs and, of course, we should work to diminish them by restoring justice. But the human situation at best will be only tolerable, never perfect.

Samuel Johnson says in the Preface to his *English Dictionary* that it "was written with little assistance of the learned, and without any patronage of the great; not in the soft obscurities of retirement, or under the shelter of academic bowers, but amidst inconvenience and distraction, in sickness and in sorrow."

His distinguished contemporary and friend, Edmund Burke, made his noble contributions to political philosophy under similar conditions. Burke was no cloistered thinker, but quite the opposite; his philosophy was hammered out to meet the exigencies of an active and abrasive political career. It dealt with real people and not with bloodless abstractions; with Englishmen pursuing their ancestral ways amid institutions half as old as time, not with Man living up on cloud nine — the target of the *Philosophes* across the channel.

### Something for Everyone

Burke in his natural political habitat is the subject matter of Professor Cone's two massive volumes. They are obviously the fruits of prodigious research, and are addressed as much to the professional historian of the period as to the interested amateur. They are detailed but readable, and the author respects Mr. Burke's privacy; only his public career is dealt with, and we learn as much as anyone needs to know about that career.

Learning *about* a public figure is all we want to know of most of them, but this is not true of Edmund Burke, a master of rhetoric as well as one of the great political philosophers. Whether he is read as literature, or philosophy, or for the role he played in the history of his nation and ours, matters not at all so long as he is read. Go to Dr. Cone for the background, then pick up one or more of the several anthologies of Burke's writings now in print. Start with the fat Anchor paperback of selections edited by Peter Stanlis, well remembered for his book, *Burke and the Natural Law*. Or, if you wish to add a handsome volume from Knopf to your library shelf, look up the large selection of Burke's writings skillfully edited by Hoffman and Levack. These will do for a starter. ◈

IDEAS ON LIBERTY

## *Pioneers*

CIVILIZATION PROGRESSES at about the rate at which mankind abandons superstition in favor of thinking.

It should follow that the greatest benefactors of mankind are those who teach others to abandon the blind fears of superstition and to seek natural causes of natural phenomena.

When men realize that they are dealing with natural and not supernatural causes, they bestir themselves to improve their environment.

As superstition is pushed back, human thinking and achievement get their chance. So long as the ocean was thought to be a fringe of black horrors around the land, men clung to the shore and let superstition have its way.

When Columbus exploded the superstition and discovered that the ocean was just more water extending to more land, the men of the Old World became explorers, built ships, and settled a new hemisphere.

WILLIAM FEATHER, from the *William Feather Magazine*, January 1966

THE Freeman

F E E

## THEY NEVER GET ALL THEY WANT

■ The reactions of people in some of the foreign nations who have been enriched by our foreign-aid gifts are like the house-party guest who was having a good time. "Oh, sure," he replied. "Fine food. I have a swell room, the host and hostess are marvelous, weather is great, and the entertainment is all anyone could ask for. Actually, there's only one thing."

"One thing you don't like?" asked his fellow guest. "And what might that be?"

"Probably I shouldn't even mention it, but to be perfectly frank with you — they're not giving me any spending money."

From THE CURTIS COURIER (February 1966) edited by Thomas Dreier

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